Alberta

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Finance and Enterprise

Annual Report
2010–2011

Government of Alberta

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

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

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

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

Minister's Accountability Statement

The Ministry's annual report for the year ended March 31, 2011, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 13, 2011 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

"Original signed by"

Lloyd Snelgrove
Minister of Finance and Enterprise
and President of Treasury Board
June 13, 2011

Message from the Minister

2010-11 was a year of gradual recovery, with continued economic challenges to Alberta and to governments around the world. As a resource-based economy, Alberta is significantly impacted by swings in commodity prices, which continue to be volatile.

In spite of this, the Alberta government continued to prudently manage through the global recession. Alberta maintained its fiscal strength during the economic downturn, owning more than we owe, and retained a top credit rating. Alberta's economy is once again gaining strength, with economic growth forecast at 3.3 per cent in 2011.

Alberta Finance and Enterprise assisted in the development of Budget 2011 by providing fiscal and economic forecast and advice, and co-ordinating production of the Budget 2011 Fiscal Plan. The budget aimed at building a better Alberta by maintaining funding for Alberta's priority programs and protecting economic competitiveness.

After the federal government's move to establish a single national securities regulator in place of the existing provincial passport system, government challenged the federal move to create a national securities regulator by filing a reference with the Alberta Court of Appeal. Alberta also intervened in a similar challenge by the Quebec government to the Quebec Court of Appeal, and in the federal government's reference to the Supreme Court of Canada. Both provincial Courts of Appeal released their opinions in March 2011 and concluded that the federal government lacked the legislative authority to enact its draft securities legislation.

The ministry developed several pieces of legislation including the *Alberta Securities Amendment Act*, 2010, which continued work to streamline and harmonize securities legislation under the 2004 Provincial-Territorial Memorandum of Understanding Regarding Securities Regulation.

The *Alberta Competitiveness Act*, 2010, also developed by the ministry, ensures Alberta remains competitive on the global economic stage. The ministry then implemented the Competitiveness Initiative, which developed a shared strategy to measure the province's overall competitiveness, and identified gaps where improvements can be made. The Alberta Competeveness Council was created and a benchmark report was issued in December 2010. Productivity Alberta services were also expanded to connect business and industry with the latest productivity improvement tools.

The ministry continued to provide quality economic, financial, and fiscal policy advice to government, as well as effective tax and regulatory administration. Government will continue to work hard to ensure Alberta's present and future prosperity.

"Original signed by"

Lloyd Snelgrove
Minister of Finance and Enterprise
and President of Treasury Board

Management's Responsibility for Reporting

The Ministry of Finance and Enterprise includes:

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

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

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

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Finance and Enterprise. Under the direction of the Minister, I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, 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 the 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 2010.

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

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

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

"Original signed by"

Tim Wiles, C.A.
Deputy Minister of Finance and Enterprise
June 13, 2011

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RESULTS ANALYSIS

Results Analysis

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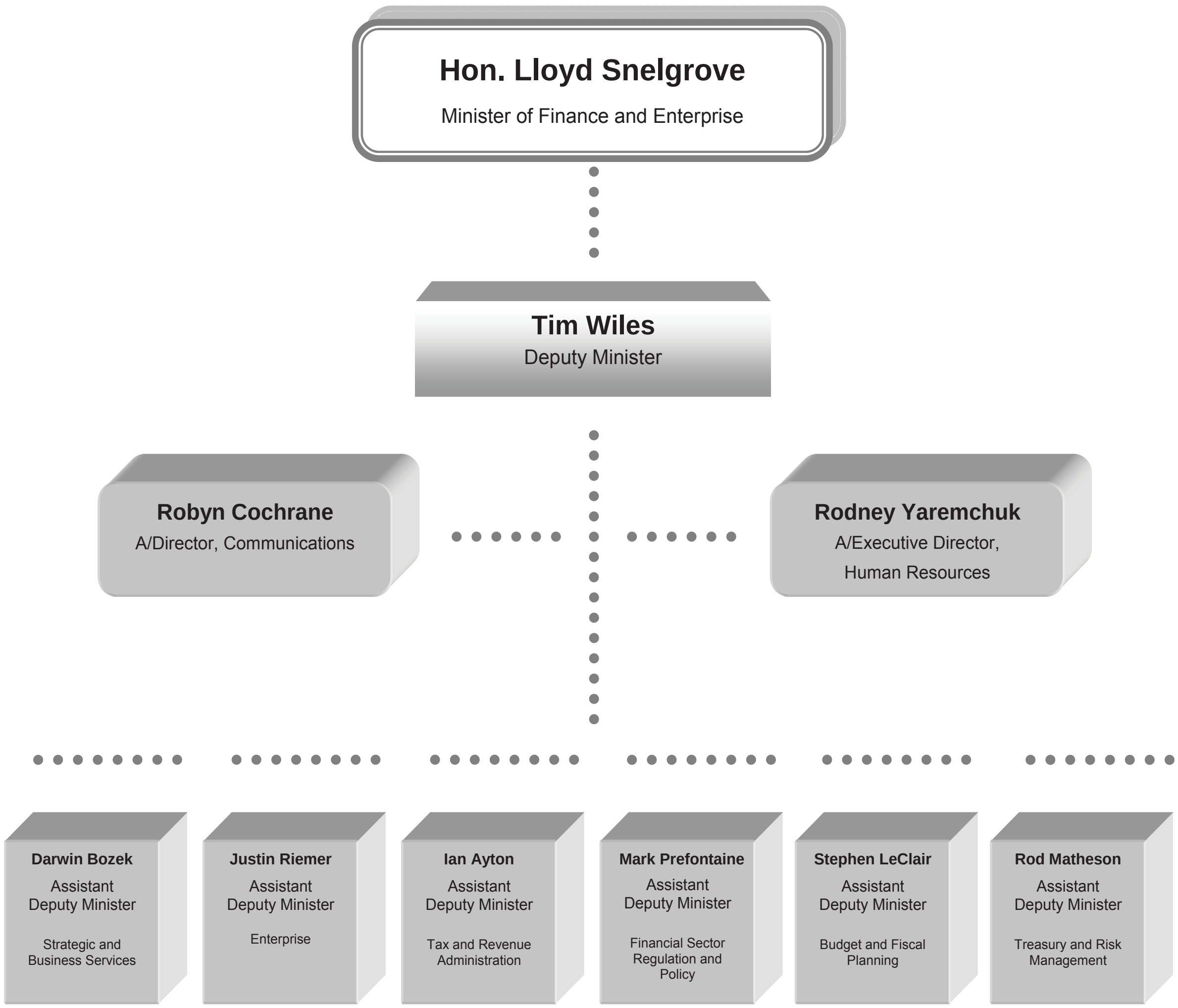
Organizational Chart



Ministry Vision, Mission, Core Businesses and Goals

Vision

Financial and economic leadership that strengthens Alberta.

Mission

Provide expert economic, f nancial, and f scal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity.

Core Businesses and Goals

Core Business: Fiscal planning and economic analysis
Goal 1 – Strong and sustainable government finances
Goal 2 – Sound tax and economic policy

Core Business: Enterprise
Goal 3 – Alberta has a competitive and productive economy

Core Business: Tax and revenue management
Goal 4 – Revenue programs are administered fairly, efficiently and effectively

Core Business: Investment, treasury and risk management
Goal 5 – Sound investment, treasury and risk management

Core Business: Financial sector and pensions
Goal 6 – Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans
Goal 7 – Accessible financial services for Albertans

Operational Overview

FINANCE AND ENTERPRISE www.finance.alberta.ca			
Terrace Building	Haultain Building	Commerce Place	Norcen Building
9515 – 107 Street	9811 – 109 Street	10155 – 102 Street	1100-715-5th Avenue SW
Edmonton, Alberta	Edmonton, Alberta	Edmonton, Alberta	Calgary, Alberta
T5K 2C3	T5K 2L5	T5J 4L5	T2P 2X6

Budget and Fiscal Planning Division (BFP)

The Budget and Fiscal Planning division is responsible for advising the government on overall fiscal, economic and tax policy issues. This includes advising on federal-provincial fiscal relations and supporting federal/provincial/territorial funding transfer discussions. BFP co-ordinates the preparation of the province's annual budget and quarterly fiscal updates and prepares the Executive Summary of the province's Annual Report. BFP also prepares population projections for use within the Government of Alberta and forecasts tax revenue and major federal funding transfers. The division presents the overall fiscal position of the Government of Alberta to the Treasury Board Committee, Cabinet and Caucus as part of the budget and quarterly update processes. BFP also is primarily responsible for the province's legislated fiscal framework. BFP has three branches: Budget Planning and Integration, Economics, Demography and Public Finance, and Tax Policy.

Tax and Revenue Administration Division (TRA)

The Tax and Revenue Administration division administers tax and related programs under the Alberta Corporate Income Tax, Tourism Levy, Fuel Tax, and Tobacco Tax acts on behalf of the Minister of Finance and Enterprise. TRA also administers the Unclaimed Personal Property and Vested Property program, and contributes to the development of Alberta tax policy. The focus of TRA's activity is to ensure a fair, efficient and effective provincial tax and revenue system. TRA has five branches: Tax Services, Revenue Operations, Audit, Strategic and Client Services and Business Technology Management.

Treasury and Risk Management Division (TRM)

Treasury Management (TM) is responsible for the management of short-term borrowing and investments, banking and cash forecasting, arranging financing for the government and provincial corporations and monitoring and managing loans and guarantees. TM is also responsible for providing investment policy advice to the Minister of Finance and Enterprise as well as portfolio planning and evaluation for the investments of the General Revenue Fund and the government endowment funds. The division provides financial and banking advice to other government departments including active involvement in the Province's Public Private Partnership (P3) projects. TM is divided into the following two areas: Capital Markets and Banking and Cash Forecasting.

Risk Management and Insurance (RMI) collaborates with ministries and agencies throughout government to assist them with identifying, measuring, controlling and financing the risk of accidental loss. The program is responsible for all "participants" subject to the Financial Administration Act. RMI is divided into two areas: Risk Management Operations and Claims Management.

Financial Sector Regulation and Policy Division (FSRP)

The Financial Sector Regulation and Policy division is responsible for the regulation and oversight of credit unions, loan and trust corporations, insurance companies and private sector pension plans. FSRP also provides policy support and analysis to the Minister of Finance and Enterprise in these areas, as well as for ATB Financial, public sector pension plans, capital markets and the Canada Pension Plan.

Enterprise Division (ENT)

The Enterprise division and its entities work with industry and communities to enhance sustainable economic development by improving their competitiveness, innovation and productivity. The Enterprise division has staff working throughout the province. The division advocates and is a catalyst for new investment, increased competitiveness, value-added industry development, and improved productivity within Alberta's key manufacturing and service sectors; co-ordinates economic development policy efforts and resources; provides Alberta's regions, communities and organizations with information, advice and support to achieve regional economic viability and enhanced prosperity; and supports the Alberta Economic Development Authority (AEDA), Northern Alberta Development Council (NADC) and Regional Economic Development Alliances (REDAS).

Regulatory Review Secretariat (RRS)

The Regulatory Review Secretariat is a three-member MLA committee established to lead regulatory reform within the Government of Alberta. To ensure the regulatory environment remains effective, efficient and responsive to the needs of business stakeholders and citizens, the RRS provides oversight for the ongoing review of regulations. The Regulatory Review Secretariat provides support to ministries to identify areas for regulatory improvement, and encourages stakeholder engagement and coordination between ministries. The RRS supports departments through a consultative, capacity-building approach to assist with the comprehensive assessment of regulatory impacts.

Strategic and Business Services Division (SBS)

The Strategic and Business Services division is responsible for supporting the ministry's operations. SBS provides leadership and oversight of the ministry's business planning and annual reporting activities, as well its enterprise risk management, pandemic and business continuity emergency management programs. SBS provides a full range of financial advisory, planning, accounting and reporting services to the ministry and to the Pension Plan Boards. The division is also responsible for providing technology services and administrative and information services, including facilities management, information and records management and the administration of the Freedom of Information and Protection of Privacy processes.

Human Resource Services (HR)

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

Communications

Communications advises and supports the Minister of Finance and Enterprise and the ministry by providing clear and timely information to the public about key initiatives, programs, and services of Alberta Finance and Enterprise. Communications also provides consulting services in issues management, strategic planning, media relations, writing, publishing, and website content.

Summary of Key Activities in the Past Year

- Developed and coordinated Budget 2011: Building a Better Alberta, which maintained funding for priority programs, continued to invest in infrastructure, and protected our economic competitiveness. In the face of continued fiscal uncertainty, the government used its savings to honour the commitment to funding growth for Alberta Health Services, and invested in infrastructure to provide facilities to meet the current and future needs of Albertans and support economic growth.
- Despite fiscal challenges, the budget maintained the province's tax competiveness, with Albertans and Alberta businesses paying $11 billion less in taxes each year than they would in any other province. This was accomplished, in part, by limiting spending increases over the three-year fiscal plan to less than the growth in population plus inflation.
- Provided Albertans with up-to-date information on the province's fiscal and economic situation with the release of quarterly fiscal updates; a report on Alberta's Net Contribution to the Federation; Alberta Population Projections by the Census Division for 2010-2050; and the weekly/monthly release of key economic information.
- Challenged the federal move to create a single, federal securities regulator by filing reference questions with the Alberta Court of Appeal to test the constitutional soundness of the federal plan. The government also intervened in a similar challenge by the Quebec government to the Quebec Court of Appeal and in the federal government's reference to the Supreme Court of Canada on the validity of its draft legislation. Both provincial Courts of Appeal released their opinions in March 2011 before the federal reference was heard by the Supreme Court of Canada in mid-April 2011. The Alberta Court of Appeal and the majority of the Quebec Court of Appeal concluded that the federal government lacked the legislative authority to enact its draft securities legislation.
- Passed a number of pieces of legislation, including the *Alberta Competitiveness Act* 2010, to help promote a more competitive provincial economy. Legislative amendments included the *Alberta Fuel Tax Amendment Act*, 2010, the *Alberta Corporate Tax Amendment Act*, 2010, the *Securities Amendment Act*, 2010, the *Personal Income Tax Amendment Act*, 2010, and the *Fiscal Responsibility Amendment Act*, 2010.
- Worked with the federal, provincial and territorial governments to review the retirement income and savings system. Achieved agreement on a common framework to enable the private sector to create a new type of pension plan, the Pooled Registered Pension Plan, to provide an additional retirement savings option for Canadian workers who do not currently have access to a workplace pension plan.
- Enabled thousands of workers affected by the restructuring of the health sector to have continuity in their pension plan participation by allowing inter-plan transfers, while ensuring that their pension plans were not negatively affected.
- Launched the Alberta Superintendent of Pensions Online Filing System, allowing private sector pension plan administrators to file annual information returns and pension plan actuarial valuation information electronically.

- Led the Competitiveness Initiative, to develop a shared strategy between government and industry to measure the province's overall competitiveness against other jurisdictions – and identified gaps where actions need to be taken to improve Alberta's competitiveness, as detailed in the benchmarking report Report on Competitiveness – Alberta 2010, released in December 2010. The Alberta Competitiveness Council was established to support a productive government-industry partnership and lead the analysis of the province's competitiveness overall and in four key industry sectors.
- Expanded the services of Productivity Alberta, which is an industry-guided service that works collaboratively with organizations across Alberta, connecting them with the latest in productivity improvement tools, resources and services. Last year, Western Economic Diversification Canada also announced their support for $2.4 million in matching funds for Productivity Alberta services and programs for business.
- Developed and incorporated the Regulatory Cost Model into Alberta's framework for regulation impact reporting to facilitate estimates of compliance costs to stakeholders and ensure costs are balanced against the risks and benefits of regulating. Other jurisdictions are working to adopt the Alberta model, on a customized basis, as part of their reform initiatives, including the Governments of Canada and Ontario.
- Collected $5.3 billion in revenue through the work of Tax and Revenue Administration, from sources like the tourism levy, as well as fuel, tobacco, insurance, and corporate income taxes. Corporate and commodity returns processed exceeded 287,000, and more than 25,000 benefit claims were processed in the same period.
- Recovered $116 million in 2010-11 through audits of commodity and corporate tax programs. The audit branch continues to work co-operatively with tax administrations across Canada to ensure compliance with Alberta's tax laws.
- Amended the *Fuel Tax Act* and Regulation to facilitate implementation of the government's Renewable Fuels Standard. The Tobacco Tax Regulation was amended to encourage compliance and improve enforcement.
- Presented Tax and Revenue Administration's first two provincial tax avoidance cases in provincial court in 2010.

Ministry Financial Highlights

Revenue

(millions of dollars)

2010–2011		2009–10
Budget	Actual	Actual
16,112	15,612	18,355

Revenue for the Ministry is $2,743 million, or 15 per cent, lower than in 2009-10.

(Actual–Actual)

- Personal income tax revenue is $361 million down from the prior year due to lower personal income and lower than expected assessments.
- Corporate income tax revenue is $1,479 million lower than the prior year due to lower corporate income impacted by the economic downturn.
- Other tax revenue is higher than the prior year by $8 million. Tobacco tax is up $29 million, fuel tax down $39 million, insurance tax up $12 million, tourism levy up $5 million and other up $1 million. Overall, other taxes are consistent with the prior year, but there has been some impact as a result of the economic downturn.
- Net investment income is $1,058 million lower than the prior year. It is lower than the prior year by $929 million for the Alberta Heritage Savings Trust Fund, $110 million for the other endowment funds, and $53 million for the Department of Finance and Enterprise. There was a minor offset of $34 million due to higher interest income reported by the Alberta Capital Finance Authority (ACFA). Global equity markets contributed good returns in 2010-11, although they were lower than last year.
- Net income from commercial operations is $76 million up from the prior year with $71 million from ATB Financial and the balance from all other commercial operations. ATB Financial net income was up $71 million from the prior year due to increased net interest income and other income along with a recovery on asset backed commercial paper and reduced provisions for credit losses.
- Premiums, fees and licences are $41 million more than the prior year mainly due to increased payment in lieu of taxes and increased other premiums, fees and licences.
- Other revenue is up $31 million from last year due to $25 million in service fee revenue mainly for Alberta Investment Management Corporation (AIMCo) external manager and service revenue fees, and $7 million in pension administration revenue, less a $1 million decrease in security settlements.

Revenue for the Ministry is $500 million, or 3 per cent, under budget.

(Budget–Actual)

- Personal income tax revenue is $1,132 million lower than budget due to lower personal income and lower than expected assessments.
- Corporate income tax revenue is $162 million higher than budget due to higher than expected corporate profits.
- Other tax revenue is $120 million lower than budget mainly due to an $80 million accrual for the discontinuance of the Tax-Exempt Fuel Use (TEFU) and Prescribed Rebates Off-Road Percentages (PROP) programs, $18 million less in Fuel Tax, and $39 million from insurance tax both slightly offset by a $17 million increase in other taxes.
- Net investment income is $396 million above budget as overall the global equity markets performed better than expected.
- Net income from commercial operations is $105 million over budget as ATB Financial's profitability is higher than expected.
- Premiums, fees and licences are $47 million over budget. This is primarily attributed to the increased payment in lieu of taxes and increased other premiums, fees and licences.
- Other revenue is $39 million over budget. Service revenue was higher than budget by $38 million mainly due to higher than expected recovery of AIMCo external investment fees.

Expenses

(millions of dollars)

2010–2011		2009–10
Budget	Actual	Actual
2,085	1,915	1,730

Ministry expenses are $185 million, or 11 per cent, higher than in 2009-10.

(Actual–Actual)

- Investment, treasury and risk management expenses are $34 million higher than the prior year due to a $27 million increase in operating costs for AIMCo along with higher expenses of $5 million in the Alberta Risk Management Fund for increased insurance claims.
- Financial sector and pensions expenses are $48 million higher than the prior year. ACFA borrowing costs are up $31 million due to increased loan activity, and there has been a $10 million increase in operating expenses for pension administration by Alberta Pensions Services Corporation. There are also $7 million more has been incurred in other expenses such as government pension plan contributions and regulatory costs.
- The Teachers' Pension liability funding is $77 million higher than the prior year since 2010-11 was the first full year of paying benefits to retired teachers, which were higher than the contributions paid during a portion of the prior year.

- Valuation adjustments are $11 million lower as pension obligations did not increase as much year over year.
- Debt servicing costs are $60 million higher than the prior year due to increased borrowing requirements starting last year for capital borrowing and the repayment of the loan to the Teachers' Pension Plan.

Expenses for the Ministry were $170 million, or 8 per cent, under budget.

(Budget–Actual)

- Investment, treasury and risk management expenses are $18 million higher than budget mainly due to the higher than estimated external manager fees incurred by AIMCo.
- Financial Sector and Pensions expenses are $12 million over budget mainly due to increased debt service costs of $17 million for ACFA, slightly offset by $4 million from the Alberta Securities Commission due to the lapsing of their contingency funds and savings in manpower due to vacancies.
- The Teachers' Pension liability funding is $19 million below budget due to fewer than expected retirements, and a lower amount of benefits payable as a result of slower economic conditions.
- Valuation adjustments are $130 million under budget due to pension plan obligations that are not as high as estimated.
- Debt servicing costs are $42 million lower than budget as the government did not proceed with all anticipated borrowings that were budgeted for in 2010-11.

AUDITOR GENERAL
Alberta

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as "Reviewed by Auditor General" in the *Ministry of Finance and Enterprise's 2010-11 Annual Report.* These performance measures are the responsibility of the Ministry and are prepared based on the following criteria:

- Reliability – Information agrees with the underlying data and with 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 2010.

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 my Office by the Ministry. My review was not designed to provide assurance on the relevance of these performance measures.

A review does not constitute an audit and, consequently, I do not express an audit opinion on the performance measures.

Based on my review, nothing has come to my attention that causes me to believe that the "Reviewed by Auditor General" performance measures in the Ministry's 2010-11 Annual Report are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability, and completeness as described above. However, my review was not designed to provide assurance on the relevance of these performance measures.

[Original signed by Merwan N. Saher, CA]

Auditor General

June 6, 2011

Edmonton, Alberta

Performance Measures Summary Table

Core Businesses/Goals/Performance Measure(s)
Note: for Methodology, Source and Notes, see Appendix

Core Businesses/Goals/Performance Measure(s)		Prior Year's Results				Target	Current Actual

CORE BUSINESS: FISCAL PLANNING AND ECONOMIC ANALYSIS

Goal 1: Strong and sustainable government finances

		Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
1.a. Alberta's credit rating (blended credit rating domestic debt)		AAA	AAA	AAA	AAA	AAA	AAA

		Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
1.b. Sustainable operating spending growth (operating spending relative to population plus CPI) (new measure 2009-12 BP)	Operating spending growth	N/A not comparable		9.6%	4.4%	5.6	6.3
	Population plus CPI			5.2%{r}	1.8%{r}	n.a	2.4

Goal 2: Sound tax and economic policy

	Result[1] 2007	Result[1] 2008	Result[1] 2009	Result[1] 2010	Target	Result[1] 2011
*2a. Provincial tax load for a family of four	[1]Lowest in Canada	[1]Lowest in Canada	[1]Lowest in Canada	[1] Lowest in Canada	[1] Lowest in Canada	[1] Lowest in Canada

[1]Results are by calendar years, which reflect the personal income tax filing period.

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
2.b. Provincial tax load on businesses	Lowest in Canada	Third Lowest in Canada	Second Lowest in Canada	Fourth Lowest in Canada	Lowest in Canada	Lowest in Canada

CORE BUSINESS: ENTERPRISE

Goal 3: Alberta has a competitive and productive economy

		Result 2007	Result 2008	Result 2009		Target	Result 2010
3.a. Manufacturing and business service industry GDP: the value of real Gross Domestic Product of manufacturing and business services (in chained 2002 dollars)[2]	GDP	$56.5 billion {r}	$57.4 billion {r}	$53.9 billion {r}		$58.4 billion	$56.0 billion
	% change	2.3%	1.7%	-6.2%		2.5%	4.0%

		Result 2006	Result 2007	Result 2008		Target	Result 2009
3.b. Manufacturing and service industry investment: the value of new capital expenditures on construction and machinery and equipment in Alberta's manufacturing and business services industry[2]	Capital Expenditures	$10.9 billion {r}	$11.9 billion {r}	$13.8 billion {r}		$12.3 billion	$11.1 billion {r}[3]
	% Change	19.5%	9.5%	15.5%		2.0%	-19.6%

[2] These two measures were changed to better reflect the department's priority sectors and the sectors identified in the Competitiveness Initiative. Both measures now include the following sectors: Manufacturing; Transportation & Warehousing; Information & Cultural Industries; Finance & Insurance; Professional, Scientific & Technical Services; Administrative & Support, Waste Management; Arts, Entertainment & Recreation; Accommodation & Food Services.

[3] Preliminary results for 2010 are available from Statistics Canada, as are expectations for 2011. However, we have chosen to only report on data that have been finalized, and because a portion of the calendar-year 2010 surveying was completed before year-end 2010, the 2010 number cannot be considered 'final'. 2009 numbers are used instead.

{r} These results have been revised

Core Businesses/Goals/Performance Measure(s)	Prior Year's Results				Target	Current Actual

CORE BUSINESS: TAX AND REVENUE MANAGEMENT

Goal 4: Revenue programs are administered fairly, efficiently and effectively

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
4.a. Ratio of amounts added to net revenue to costs of administration (as a measure of efficiency)	15:1	13:1	25:1	12:1	12:1	13:1
4.b. Percentage of revenue obtained through self-compliance (as a measure of effectiveness)	92.8%	94.2%	88.1%	95.0%	92.0%	92.2%

CORE BUSINESS: INVESTMENT, TREASURY AND RISK MANAGEMENT

Goal 5: Sound investment, treasury and risk management

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
*5.a. The Alberta Heritage Savings Trust Fund policy portfolio will achieve at least a five year annualized rate of return of CPI plus 4.5 per cent.[4]	N/A Not Comparable		2.9% (3.5% below target)	4.7% (1.6% below target)	6.30%	3.8% (2.45% below target)

[4]The wording of the measure has changed from that presented in Budget 2010 to better reflect the nature of the measure as a measure of policy portfolio performance.

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
5.b. Value added through active investment management, for the endowment and pension funds, annualized over a five-year period[5]	[5] pension under rest over target	over target	under target	under target	Various	All under target

[5]Pension funds not included in this measure in 2007-08.

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
5.c. Client satisfaction with the services provided by the Risk Management and Insurance branch (survey issued every three years)[6]	86%	N/A	86%	N/A	N/A	N/A

[6]The results for 2009-10 and 2010-11 are not applicable as the survey frequency has changed from every 2 years to every 3 years.

CORE BUSINESS: FINANCIAL SECTOR AND PENSIONS

Goal 6: Policy and regulatory oversight for the financial, insurance and pensions sectors

Note: Performance Measure under Development

Goal 7: Accessible financial services for Albertans

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
7.a. ATB Financial return on average assets	1.44%	0.14%	0.03%	0.62%	0.46%	0.99%

	Result 2006-07	Result 2007-08	Result 2008-09	Result 2009-10	Target	Result 2010-11
7.b. Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan	Met (in both cases compared)			Met	Met	Met

Note: For additional detail please refer to the appendix

*These performance measures were selected for Office of the Auditor General (OAG) review by ministry management based on the following criteria established by government:

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

Discussion and Analysis of Results

GOAL 1 Linked to Core Business 1 – Fiscal Planning and Economic Analysis

Strong and Sustainable Government Finances

A component of Alberta's fiscal planning and budgeting is the legislated fiscal framework, enshrined mainly in the *Fiscal Responsibility Act*. The fiscal framework reflects the rules and limitations the government places on itself for budgeting purposes. Responsibility for the framework rests with Alberta Finance and Enterprise. The fiscal framework was amended in 2009-10 to provide flexibility to deal with the global economic downturn, and to simplify it.

In 2010-11, Alberta Finance and Enterprise provided updates to 2010-11 forecasts and advice on the province's fiscal and economic situation to Treasury Board Committee, Cabinet and Caucus. While economic recovery took hold in 2010-11, the government's revenue position remained mixed with global economic prospects still uncertain, Overall, revenue was higher than budgeted, but certain revenue sources were stronger than expected while others were weaker.

The volatility of Alberta's economy and revenue base present challenges in maintaining the sustainability of government finances. In 2010-11, revenue was $0.9 billion higher than originally forecast in Budget 2010, but there were some large changes in a number of individual major revenue sources. Land lease sales, oil sands royalties and investment income were higher than originally forecast, while natural gas royalties and personal income tax revenue were lower. Operating expense increased 6.3 per cent in 2010-11 compared to population growth plus inflation of 2.4 per cent, but was less than originally budgeted. Total expense was also lower than budgeted with lower-than-expected 2010-11 capital grants. These were somewhat offset by providing significant in-year increases for emergency and disaster assistance – mainly for floods, forest fires and to the agriculture sector.

Alberta Finance and Enterprise contributes economic, tax and fiscal policy analysis on government initiatives, and on provincial, national and global events and issues, as they arise. The ministry also provided economic and fiscal advice on such initiatives as the Athabasca Oil Sands Regional Comprehensive Regional Infrastructure Sustainability Plan and the Investment Competitiveness Review, and on energy, climate change, carbon capture, storage policy issues and the Land-use Framework. The ministry also began working with its federal/provincial/territorial counterparts to prepare for the renewal of major federal funding transfers.

GOAL 2 Linked to Core Business 1 – Fiscal Planning and Economic Analysis

Sound Tax and Economic Policy

The tax system must be fair and promote self-reliance. The system must also be competitive with those in other provinces and countries in order to attract investment and skilled workers to Alberta. The government's policy of broad tax bases with low tax rates leaves more money in the hands of Albertans and Alberta businesses to spend and invest and promotes strong economic growth. Overall, Alberta has the lowest taxes of all provinces with its low single-rate personal income tax, low corporate tax rates and the lowest tax on gasoline. Alberta also has no capital tax or general payroll tax, and is the only province without a general provincial sales tax.

Despite the economic recession and the province's fiscal situation, Alberta did not introduce any new taxes, nor did it raise taxes. In 2010, the province was able to cut education property tax rates by more than 13 per cent, marking the 17th consecutive year that rates have either been frozen or fallen. Alberta had the lowest overall provincial tax load on a family of four (performance measure 2a) and the lowest provincial tax burden on business (performance measure 2b).

GOAL 3 Linked to Core Business 2 – Enterprise

Alberta has a competitive and productive economy

Alberta Finance and Enterprise led the Competitiveness Initiative to develop a shared strategy between government and industry that measured the province's overall competitiveness – and identified gaps where actions need to be taken to improve Alberta's competitiveness. The Alberta Competitiveness Council was established to support a productive industry-government partnership, lead the analysis of the province's competitiveness overall and in four key industry sectors, as well as identify immediate actions that government and industry can undertake. Sectors reviewed include: Agriculture (Grains and Oil Seeds), Financial Services, Manufacturing, and Petrochemicals/ Chemicals. A Competitiveness Forum was held in June 2010 with government officials and senior industry leaders. The inaugural Competitiveness Council benchmarking report was issued December 2010, comparing Alberta's performance across 60 measures and 14 jurisdictions, demonstrating areas for action and continued focus under the initiative.

Services of Productivity Alberta were expanded. Productivity Alberta is an industry-guided service that works collaboratively with organizations across Alberta, connecting them with the latest in productivity improvement tools, resources and services. In 2010/11, more than 20,000 visitors used the Productivity Alberta website, with nearly 250 companies using the Productivity Assessment Tool to analyze their productivity improvement opportunities. In addition, 3000 people attended presentations and events, including the inaugural Productivity Summit Series Luncheons, garnering satisfaction ratings in excess of 96%. Last year, Western Economic Diversification Canada also announced their support for $2.4 million in matching funds for Productivity Alberta services and programs for business.

Programs were launched in the metal fabrication, building products and aerospace sectors to drive company-specific improvements in productivity practices, process and technology systems, innovation adoption and supply chain development.

Economic growth in all regions of the province was supported by partnering with regional economic development alliances, business organizations and others on economic development initiatives to identify and capture key opportunities to diversify local economies, add value to resource-based industry sectors and support local business growth and expansion. Implementation of the Land-use Framework was supported and strategic advice was provided on economic growth and diversification opportunities in Lower Athabasca Region and South Saskatchewan Region.

Alberta Economic Development Authority released several publications this past year, including "Building Alberta's Financial Services Industry" report which identified major goals, strategies and recommendations for building and expanding Alberta's financial services industry. It also released the "Accelerating Broadband Enablement in Rural Alberta" report which outlined the benefits of competitive broadband enablement in the province.

The Northern Alberta Development Council (NADC) continued to support the development of Alberta's north. NADC continued to work closely with regional stakeholders to advance northern transportation corridors. In addition its return service bursary program continues to be very successful with an 85 per cent return service success rate.

In 2010, the real gross domestic product (GDP) for manufacturing and business and commercial services was $56.0 billion. The measure exceeded the established target of 2.5 per cent as it increased by 4.0 per cent from 2009, because of the global recovery, rising oil sands investment and increased drilling activity. The manufacturing sector increased by 8.7 per cent over the same period.

The strongest growing manufacturing sectors were machinery and fabricated metals (rising oil sands investment and drilling activity in Alberta and increased international demand for oil and gas field machinery and equipment), non-metallic mineral products and wood products, such as lumber and oriented strand board (OSB) (rising domestic demand), and chemicals (global recovery).

GDP for business and commercial services rose by 2.5 per cent in 2010; the strongest growing sector was finance and insurance.

For a comparative frame of reference, Alberta's overall GDP increased by an estimated 3.8 per cent in 2010.

Goal 4 Linked to Core Business 3 – Tax and Revenue Management

Revenue Programs are Administered Fairly, Efficiently and Effectively

The Ministry of Finance and Enterprise designs tax and revenue programs, collects revenue owing to the Province, administers tax and revenue laws, makes payments of refunds and rebates, and provides information to stakeholders, taxpayers and claimants.

- The Ministry collected a total of $5.3 billion in revenue through the work of Tax and Revenue Administration, from sources like the tourism levy, and fuel, tobacco, insurance, and corporate income taxes. Corporate and commodity returns processed exceeded 287,000 and more than 25,000 benefit claims were processed in the same period.
- The *Alberta Corporate Tax Amendment Act*, 2010 and corresponding regulation were passed in 2010. The Tobacco Tax Amendment Regulation was approved by the Lieutenant Governor in Council in November of 2010 to support recent amendments to the Act and enhance enforcement. The Fuel Tax Amendment Regulation was approved in March of 2011. The *Fuel Tax Act* and Regulation were amended to facilitate implementation of the government's Renewable Fuels Standard.
- Tax and Revenue Administration's audits recovered $116 million in commodity and corporate tax programs in 2010-11. Audit continues to work cooperatively with tax administrations across Canada to ensure compliance with Alberta's tax laws.
- Tax and Revenue Administration has presented its first two provincial tax avoidance cases in provincial court this year.

Goal 5 Linked to Core Business 4 – Investment, Treasury and Risk Management

Sound investment, treasury and risk management

The Minister of Finance and Enterprise sets the long term asset allocation policies and guidelines for the funds under his administration, based on advice from the Treasury and Risk Management division and Alberta Investment Management Corporation (AIMCo). The asset allocation decisions are responsible for most of the funds' returns. AIMCo implements these asset allocation policies through a wide range of investment products that they have developed to meet their clients' needs with respect to returns and risk tolerances. AIMCo also adds incremental returns through its tactical asset allocation and security selection decisions.

During 2010-11, the un-matured debt of the Province decreased $67 million to $4,712 million at March 21, 2011. The associated debt servicing costs increased by $81 million to $295 million in 2010-11.

Other activity in the Investment, Treasury and Risk Management business included:

- Maintained a strong position for recovery with nearly $11.2 billion in emergency savings in the Sustainability Fund at March 31, 2011. The Fund protects priorities and Alberta's competitiveness in tough times, setting the stage for building a better Alberta. The Fund will be replenished when cash becomes available;
- Postponed 2010-11 planned borrowing of $1.1 billion to 2011-12; (Budget 2009 announced a three year plan to borrow $3.3 billion for capital purposes. During 2009-10, about $1.5 billion of this amount was raised primarily by borrowing in the Canadian capital markets. The amount borrowed also included $79 million which was raised by selling Alberta Capital Bonds to Albertans in February 2010. The province is not borrowing to support operating expense.)
- Transferred $48.4 million to Advanced Education for the Access to the Future Fund;
- Transferred $18.75 million from the Alberta Cancer Legacy Prevention Fund to Alberta Health and Wellness; and
- Drew down $6,021 million from the Sustainability Fund in 2010-11 to support the operating expenses of the Province and other cash requirements.

Goal 6 Linked to Core Business 5 – Financial sector and pensions

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

Alberta Finance and Enterprise, through the office of the Superintendent of Pensions, currently monitors 760 private sector pension plans. Of these, 676 are active, seven are in the process of being registered, six are suspended, and 71 are in the process of winding up. These plans have 239,855 active members. Total contributions for the year ended March 31, 2011 were approximately $2.3 billion and the total market value of assets was approximately $25.9 billion for the year ended March 31, 2011.

During 2010-11, Alberta reached agreement with our federal and provincial counterparts on a policy framework that will allow the private sector to create a new type of voluntary Pooled Registered Pension Plans, to provide an additional retirement savings option for Canadian workers who do not currently have access to a pension plan through their workplace.

In addition, Alberta initiated a reference to the Alberta Court of Appeal regarding the constitutionality of the federal government's proposal for a single federal securities regulator, and intervened in support of Québec in a similar reference to the Québec Court of Appeal. Alberta also intervened in the federal government's reference to the Supreme Court of Canada to determine the validity of its draft securities legislation. Both provincial courts of appeal released their opinions in March 2011 before the Supreme Court hearing in mid-April 2011. The Alberta Court of Appeal and a majority of the Quebec Court of Appeal concluded that the federal government lacked the legislative authority to enact its draft securities legislation.

Goal 7 Linked to Core Business 5 – Financial sector and pensions

Accessible financial services for Albertans

Alberta's dynamic economy and entrepreneurial spirit requires readily accessible and technologically advanced financial services and products. In addition to private sector financial institutions, the Alberta Treasury Branches (ATB Financial) and the Alberta Capital Finance Authority (ACFA) make financial services and products available to Albertans and local authorities.

ATB Financial is a full-service financial institution serving over 680,000 Albertans through 167 branches and 130 agencies in Alberta. About 58 per cent of its loans are in residential mortgages and consumer loans, with the balance divided between commercial, agricultural and independent business loans.

ATB's net income increased to $198.5 million for 2010-11 from the previous year's result of $127.5 million. This net income is after deducting a payment in lieu of tax of $59.3 million and $38.1 million in 2010-11 and 2009-10 respectively.

ATB's return on average assets before payment in lieu of tax was 0.99 per cent for the year. This exceeded the targeted return of 0.46 per cent and was driven by credit losses coming in $56.5 million under plan, and stronger than expected net interest spreads.

ACFA provides financing for capital projects to a variety of local authorities including municipalities, health authorities, school boards, post-secondary institutions and airport authorities throughout the province. The cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan was the lowest of comparable cases for 2010.

Ministry Expense by Function

Expense by Function
(Millions of dollars)

	2010–11 Budget	2010–11 Actual	2009–10 Actual
Health	31	19	104
Education	91	88	38
Agriculture, Resource Management and Economic Development	128	135	52
Regional Planning and Development	170	187	154
Protection of Persons and Property	42	37	33
General Government	860	857	807
Debt Servicing	288	246	186
Pension Provisions	475	346	356
Total Expense by Function	**$2,085**	**$1,915**	**$1,730**

FINANCIAL INFORMATION

Financial Information

Ministry of Finance and Enterprise

Financial Information

Financial Statements of the Ministry of Finance and Enterprise and Its' Entities

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Ministry of Finance and Enterprise

Consolidated Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

AUDITOR GENERAL Alberta

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 Finance and Enterprise, which comprise the consolidated statement of financial position as at March 31, 2011 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 in my audit 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 Finance and Enterprise as at March 31, 2011 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, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Consolidated Statement of Operations

Year ended March 31, 2011

($ millions)

	2011		2010
	Budget	Actual	Actual
	(Schedule 2)		
Revenues (Schedules 1 and 2)			
Income taxes	$ 11,761	$ 10,791	$ 12,631
Other taxes	2,033	1,913	1,905
Transfers from Government of Canada	32	36	37
Net investment income	1,897	2,293	3,351
Net income from commercial operations	108	213	137
Premiums, fees and licences	93	140	99
Internal government transfers	1	-	-
Other	187	226	195
	16,112	15,612	18,355
Expenses (Schedules 2 and 3)			
Fiscal planning and economic analysis	5	4	4
Ministry support services	11	10	11
Enterprise	21	22	21
Tax and revenue management	42	34	57
Financial sector and pensions	341	353	305
Investment, treasury and risk management (Note 12)	464	482	448
Teachers' pre-1992 pension liability funding	437	418	341
Valuation adjustments (Schedule 4)	476	346	357
Debt servicing costs			
General government	273	231	166
School boards	15	15	20
	2,085	1,915	1,730
Net operating results	**$ 14,027**	**$ 13,697**	**$ 16,625**

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

Consolidated Statement of Financial Position

As at March 31, 2011

	2011	2010
	($ millions)	
Assets		
Cash and temporary investments (Schedule 5)	$ 2,393	$ 4,775
Accrued interest and accounts receivable (Schedule 6)	1,859	1,778
Portfolio investments (Schedule 7)	28,820	32,003
Equity in commercial enterprises (Schedule 8)	2,188	1,997
Loans and advances to government entities (Schedule 9)	1,514	1,379
Other loans and advances (Schedule 10)	9,837	8,273
Tangible capital assets (Schedule 11)	60	47
	$ 46,671	$ 50,252
Liabilities		
Bank overdraft	$ 812	$ 875
Accrued interest and accounts payable (Schedule 12)	1,616	1,477
Unmatured debt (Schedule 13)	4,641	4,706
Debt of Alberta Capital Finance Authority (Schedule 14)	9,660	8,100
Pension obligations (Schedule 15)	9,298	8,952
Other accrued liabilities (Schedule 16)	131	169
	26,158	24,279
Net Assets		
Net assets at beginning of year	25,973	29,354
Net operating results	13,697	16,625
Net financing provided for general revenues (Note 3 (b))	(19,114)	(19,929)
Change in accumulated unrealized gains (Schedule 8)	(43)	(77)
Net assets at end of year	20,513	25,973
	$ 46,671	$ 50,252

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

Consolidated Statement of Cash Flows

Year ended March 31, 2011

	($ millions)	
	2011	2010
Operating activities		
Net operating results	$ 13,697	$ 16,625
Non-cash items included in net operating results	(89)	121
	13,608	16,746
(Increase) decrease in receivables	(81)	403
Increase (decrease) in payables	139	(214)
Other	(6)	(79)
Cash provided by operating activities	13,660	16,856
Capital activities		
Purchase of tangible capital assets	(25)	(40)
Cash applied to capital activities	(25)	(40)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	12,880	25,808
Portfolio investments purchased	(9,478)	(26,133)
Repayments of loans and advances	1,000	2,445
Loans and advances made	(1,296)	(3,829)
Cash provided by (applied to) investing activities	3,106	(1,709)
Financing activities		
Debt issues	7,668	14,311
Debt retirement	(7,577)	(10,303)
Payment of Teachers' pre-1992 pension plan obligation	-	(1,186)
Grants for school construction debenture principal repayment	(37)	(44)
Net financing provided for general revenues	(19,114)	(19,929)
Cash applied to financing activities	(19,060)	(17,151)
Decrease in cash	(2,319)	(2,044)
Cash and temporary investments, net of bank overdraft, at beginning of year	3,900	5,944
Cash and temporary investments, net of bank overdraft, at end of year	$ 1,581	$ 3,900

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

Notes to the Consolidated Financial Statements

March 31, 2011

(All dollar amounts in millions, unless otherwise stated)

NOTE 1 AUTHORITY

The Minister of Finance and Enterprise 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 Minister of Finance and Enterprise administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Finance and Enterprise (the Ministry).

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

Alberta Investment Management Corporation
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
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 core businesses are:

a) Fiscal planning and economic analysis,
b) Tax and revenue management,
c) Investment, treasury and risk management,
d) Financial sector and pensions, and
e) Enterprise – industry, regional, and northern economic development.

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 accounts of the Department, the Alberta Cancer Prevention Legacy Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Risk Management Fund, Provincial Judges and Masters in Chambers Reserve Fund, Supplementary Retirement Plan Reserve Fund, Alberta Capital Finance Authority, Alberta Insurance Council, Alberta Local Authorities Pension Plan Corp., Alberta Pensions Services Corporation, Alberta Securities Commission and Alberta Investment Management Corporation 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 accounts of Provincial agencies and other entities designated as commercial enterprises (ATB Financial and its subsidiaries, Credit Union Deposit Guarantee Corporation, and N.A. Properties (1994) Ltd.), and the commercial Crown-controlled corporation (Gainers Inc.) are reported on the modified equity basis; the equity being computed in accordance with Canadian public sector accounting standards applicable to these entities.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Minister of Finance and Enterprise administers the Fund. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the 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 of Finance and Enterprise.

c) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

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.

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

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

Internal Government Transfers

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

Expenses

Expenses represent the cost of resources consumed during the year on Ministry operations as well as valuation adjustments 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.

Pension costs included in these statements comprise 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 statements of operations. Schedule 17 discloses information on these related party transactions.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to guarantees, indemnities, pension obligations, loans repayable from future appropriations, and accrued employee vacation entitlements.

Valuation adjustments 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.

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 reported as interest rate derivatives, are designated as hedges of market risk for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the specific assets and liabilities being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged asset or liability and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps reported as interest rate derviatives, equity index swaps and equity index futures reported as equity replication derivatives, and forward foreign exchange contracts 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 of cash and temporary investments and accrued interest and accounts receivable are limited to financial claims on other organizations, tax payers, employees and other individuals.

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 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.

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 11). The threshold for capitalizing new systems development is $250 thousand and the threshold for all other capital assets is $5 thousand.

Liabilities

Liabilities representing present obligations of the Ministry to external organizations and individuals arising from transactions or events occurring prior to the year end are recorded to the extent there is an appropriate basis of measurement and a reasonable estimate of the amount can be made. 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 and forward interest rate agreements used to manage interest rate exposure is recorded as an adjustment to debt servicing costs. The exchange gain or loss on the foreign exchange contracts used to manage currency exposure is deferred and amortized over the life of the contract.

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 $7,516 million (2010: $7,877 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 4.7% (2010: 1.5%).

Corporate income tax revenue, totaling $3,275 million (2010: $4,754 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Department records corporate income tax revenue as 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.

Private investments and hedge funds of $4,644 million (2010: $3,981 million), see Schedule 7, are subject to measurement uncertainly as the fair value may differ significantly from the values that would have been used had a ready market for these investments existed.

Pension provisions of $346 million (2010: $356 million), Schedule 4 and Schedule 15, are subject to measurement uncertainty because a Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits.

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 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 temporary investments, accrued interest and accounts receivable, bank overdraft, 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 Alberta Capital Finance Authority's (the Authority) current cost of borrowing. Fair values of other loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability. The fair value of unmatured debt and debt held by the Authority is an approximation of its fair value to the holder.

The fair value of derivative contracts 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:

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 5 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.

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NOTE 5 FINANCIAL RISK MANAGEMENT CONTINUED

The Ministry has decided that the most effective liability risk management strategy would be 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 (Heritage Fund). Income and financial returns of the Heritage Fund are exposed to credit risk and price risk. Price risk is comprised of currency risk, interest rate risk and market 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 6 CONTRACTUAL OBLIGATIONS

Obligations to outside organizations in respect of contracts entered into before March 31, 2011 amounted to $469 million (2010: $456 million). These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

	($ millions)
2011-12	$ 155
2012-13	99
2013-14	55
2014-15	31
2015-16	25
Thereafter	104
	$ 469

NOTE 7 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 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, 2011, credit unions in Alberta held deposits totaling $16,680 million (2010: $15,996 million). Substantial assets are available from credit unions to safeguard the Department from the risk of loss from its potential obligation under the Act.

For ATB Financial, the repayment of all deposits without limit, including accrued interest, is guaranteed by the Province of Alberta, through the Department. The Department assesses an annual deposit guarantee fee of $25 million (2010: $24 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2011, ATB Financial had deposits totalling $23,982 million (2010: $22,579 million).

ATB Financial, at March 31, 2011, had a potential liability under guarantees and letters of credit amounting to $347 million (2010: $333 million).

Payments under guarantees are a statutory charge on the Ministry.

b) LEGAL ACTIONS

At March 31, 2011, the Ministry was involved in various legal actions through the consolidated entities, the outcomes of which are not determinable. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the Department is jointly or separately named as a defendant in thirty-three (2010: twenty-six) legal claims. Of the thirty-three claims, twenty-eight have specified amounts totaling approximately $334 million (2010: $124 million) and five claims have no specified amount. Five (2010: four) claims totaling $1 million (2010: $1 million) are covered by the Alberta Risk Management Fund. In addition, some taxes assessed were under objection and some were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 8 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 to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty.

NOTE 8 DERIVATIVE CONTRACTS CONTINUED

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

	Maturity			2011		2010	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount [(a) (c)]	Fair Value [(b) (c)]	Notional Amount	Fair Value
Interest rate derivatives [(d)]	53%	6%	41%	$ 30,999	$ 43	$ 14,118	$ 75
Equity replication derivatives [(e)]	87%	13%	-	10,374	36	5,990	89
Foreign currency derivatives [(f)]	100%	-	-	10,076	36	5,047	58
Credit risk derivatives [(g)]	50%	15%	35%	2,841	(26)	3,925	(31)
Commodity derivatives	52%	48%	-	2,892	1	1,622	1
Derivative-related receivables, net					90		192
Deposits in futures contracts margin accounts					163		140
Net derivative-related investments (included in Schedule 7)					$ 253		$ 332

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. 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 4.

(c) Includes derivatives of ATB Financial with a contract notional amount of $22,945 million (2010: $6,570 million) and a net fair value of $17 million (2010: $80 million). The exposure to credit risk on these derivatives of $272 million (2010: $227 million) is reduced by entering into netting agreements of $10 million (2010: $8 million) and collateral agreements with counterparties of $19 million (2010: $87 million) leaving a residual credit exposure of $243 million (2010: $132 million).

(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 deriviatives primarily include equity index swaps, futures contracts and rights, warrants and options.

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

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

NOTE 9 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

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

As at March 31, 2011, trust and other funds under administration were as follows:

	($ millions) 2011	2010
Local Authorities Pension Plan Fund	$ 18,159	$ 15,803
Public Service Pension Plan Fund	6,348	5,617
The Workers' Compensation Board Accident Fund	1,359	1,416
Universities Academic Pension Plan Fund	2,602	2,336
Management Employees Pension Plan Fund	2,627	2,362
Special Forces Pension Plan Fund	1,527	1,370
Other	224	217
	$ 32,846	$ 29,121

NOTE 10 DEFINED BENEFIT PLANS

The Department sponsors and participates in the following multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan, and the Supplementary Retirement Plan for Public Service Managers. The Department's annual contribution for employees in these plans is $6 million (2010: $6 million).

At December 31, 2010, the Management Employees Pension Plan reported a deficiency of $397 million (2009: $483 million), the Public Service Pension Plan reported a deficiency of $2,067 million (2009: $1,729 million) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $40 million (2009: $40 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2011, the Bargaining Unit Plan reported a deficiency of $4 million (2010: $8 million) and the Management, Opted Out and Excluded Plan reported a surplus of $7 million (2010: surplus of $7 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 11 ASSET BACKED SECURITIES

At March 31, 2011, the Ministry through its investments in the Department, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund and the Alberta Cancer Prevention Legacy Fund holds the new longer-term notes, subsequent to the restructuring of asset backed securities in the Canadian market, of $60 million at fair value and $66 million at cost (2010: $52 million at fair value and $63 million at cost). In the current year there were write-downs of nil in these investments (2010: $0.5 million).

Investments held by ATB Financial that are consolidated on the modified equity basis had a recovery on these long term notes of $29 million (2010: $0.5 million). This recovery is included in net income from commercial operations on the Consolidated Statement of

NOTE 11 ASSET BACKED SECURITIES CONTINUED

Operations. As at March 31, 2011 the remaining estimated fair value on these investments at ATB Financial was $638 million (2010: $614 million).

NOTE 12 EXTERNAL INVESTMENT EXPENSES

The Ministry manages, through the Alberta Investment Management Corporation (AIMCo), the investment assets of the Government of Alberta and several external entities, such as public sector pension plans and long-term disability funds. In the regular course of its duties AIMCo incurs fees from external managers on behalf of the Ministry and the external entities as follows:

	($ millions) 2011	2010
Incurred by Ministry of Finance and Enterprise	$ 76	$ 67
Incurred by external entities	94	84
	$ 170	$ 151

The Ministry received external investment management fee revenue of $94 (2010: $84) that has been reported on Schedule 1 under Other - Service revenue.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2011 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister.

Schedules to the Consolidated Financial Statements

March 31, 2011

(All dollar amounts in millions, unless otherwise stated)

REVENUES

SCHEDULE 1

($ millions)

	2011		2010
	Budget	**Actual**	**Actual**
Income taxes			
Personal income tax	$ 8,648	$ 7,516	$ 7,877
Corporate income tax	3,113	3,275	4,754
	11,761	10,791	12,631
Other taxes			
Tobacco tax	880	893	864
Fuel tax	760	662	701
Insurance taxes	323	284	272
Alberta tourism levy	63	65	60
Special broker tax	7	9	7
Financial institutions capital	-	-	1
	2,033	1,913	1,905
Transfers from Government of Canada			
Community Development Trust	27	32	33
Unconditional subsidy	5	4	4
	32	36	37
Net investment income			
Investment income	1,897	2,293	3,351
Net income from commercial operations			
ATB Financial	99	199	128
Other	9	14	9
	108	213	137
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	30	59	38
ATB Financial deposit guarantee fee	25	25	24
Alberta Securities Commission	24	27	26
Alberta Insurance Council	4	4	4
Other	10	25	7
	93	140	99
Internal government transfers			
Internal government transfers	1	-	-
Other			
Pensions administration	46	45	38
Service revenue	127	165	140
Insurance services	14	14	14
Securities settlements	-	1	2
Refunds of expenditure and miscellaneous	-	1	1
	187	226	195
	$ 16,112	$ 15,612	$ 18,355

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BUDGET

SCHEDULE 2

($ millions)

	2010-11 Estimates	Adjustments (a)	2010-11 Budget	Authorized Supplementary Estimates (b)	2010-11 Authorized Budget
Revenues					
Income taxes	$ 11,761	$ -	$ 11,761	$ -	$ 11,761
Other taxes	2,033	-	2,033	-	2,033
Transfers from Government of Canada	32	-	32	-	32
Net investment income	1,897	-	1,897	-	1,897
Premiums, fees, and licences	93	-	93	-	93
Net income from commercial operations	108	-	108	-	108
Internal government transfers	1	-	1	-	1
Other	187	-	187	-	187
	16,112	-	16,112	-	16,112
Expenses					
Fiscal planning and economic analysis	5	-	5	-	5
Tax and revenue management	42	-	42	-	42
Investment, treasury and risk management	464	-	464	-	464
Financial sector and pensions	341	-	341	-	341
Enterprise	21	-	21	-	21
Ministry support services	11	-	11	-	11
Teachers' pre-1992 pension liability funding	437	-	437	-	437
Valuation adjustments	1	475	476	-	476
Debt servicing costs					
General government	15	-	15	-	15
School boards	273	-	273	-	273
	1,610	475	2,085	-	2,085
Net operating results	$ 14,502	$ (475)	$ 14,027	$ -	$ 14,027

(a) Adjustments consisted of $475 million for pension provisions. Subject to the Fiscal Responsibility Act, expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense the Ministry reports at year-end.

(b) Estimates were approved on February 24, 2010 and there were no supplementary estimates for the Ministry.

EXPENSE BY OBJECT

SCHEDULE 3

($ millions)

	2011		2010
	Budget	**Actual**	**Actual**
Salaries, wages and employee benefits	$ 148	$ 163	$ 137
Supplies and services	255	250	232
Grants	245	236	237
Interest and amortization of unrealized exchange gains and losses	425	410	315
Pension liability funding	515	497	419
Interest payments on corporate tax refunds	9	3	25
Valuation adjustments (Schedule 4)	476	346	357
Amortization of tangible capital assets	11	9	7
Other financial transactions	1	1	1
	$ 2,085	$ 1,915	$ 1,730

VALUATION ADJUSTMENTS

SCHEDULE 4

($ millions)

	2011		2010
	Budget	**Actual**	**Actual**
Pension provisions (Schedule 15)	$ 475	$ 346	$ 356
Provision for employee benefits other than pensions	1	-	1
	$ 476	$ 346	$ 357

CASH AND TEMPORARY INVESTMENTS — SCHEDULE 5

	($ millions) 2011	2010
Fixed-income securities [a]		
Corporate	$ 648	$ 2,038
Provincial, direct and guaranteed	46	1,059
Government of Canada, direct and guaranteed	542	316
Municipal	6	49
	1,242	3,462
Deposit in the Consolidated Cash Investment Trust Fund [b]	985	1,163
Cash in bank and in transit	166	150
	$ 2,393	$ 4,775

(a) Fixed-income securities have an average effective yield of 0.93% (2010: 0.34%) per annum. All of the securities have terms to maturity of less than one year (2010: less than one year).

(b) 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, 2011, securities held by the Fund have a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE — SCHEDULE 6

	($ millions) 2011	2010
Corporate income tax	$ 705	$ 746
Personal income tax	562	412
Accrued interest and receivable from sale of investments	281	351
Receivable from ATB Financial	85	62
Insurance taxes	81	79
Fuel tax	61	52
Trade settlement receivable	21	25
Tobacco tax	11	10
Tourism levy	6	5
Financial institutions capital tax	2	2
Lottery Fund	-	13
Contributions receivable from credit union system	-	6
Other	45	16
	1,860	1,779
Less allowance for doubtful accounts	1	1
	$ 1,859	$ 1,778

PORTFOLIO INVESTMENTS

SCHEDULE 7

($ millions)

	2011		2010	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Interest-bearing securitites				
Deposits and short-term securities	$ 17	$ 17	$ 24	$ 24
Bonds and mortgages	16,410	16,652	19,766	20,145
	16,427	16,669	19,790	20,169
Equities				
Canadian public equities	1,469	1,706	2,285	2,486
Global developed public equities	6,227	6,547	5,898	6,024
Emerging markets public equities	53	52	49	46
Private equities	889	939	755	761
	8,638	9,244	8,987	9,317
Inflation sensitive and alternative investments				
Private real estate	1,811	2,311	1,524	1,873
Inflation sensitive real return bonds	6	6	95	97
Private infastructure investments	785	724	688	597
Absolute return strategy hedge funds	835	916	825	872
Timberland	231	244	94	94
Private debt and loan	87	86	-	-
	3,755	4,287	3,226	3,533
Total portfolio investments	$ 28,820	$ 30,200	$ 32,003	$ 33,019
Interest-bearing securitites				
Department [(a)]	$ 11,324	$ 11,552	$ 15,169	$ 15,532
Alberta Heritage Savings Trust Fund [(b)]	3,813	3,819	3,586	3,590
Other entities	1,290	1,298	1,035	1,047
	$ 16,427	$ 16,669	$ 19,790	$ 20,169
Average effective market yield				
Department		2.3%		3.7%
Alberta Heritage Savings Trust Fund		4.5%		5.0%

(a) Of the Department's fixed-income securities, 15% of the securities held had terms to maturity of less than one year.

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

	2011	2010
	%	%
Under 1 year	11	3
1 to 5 years	32	33
6 to 10 years	31	36
11 to 20 years	13	13
Over 20 years	13	15
	100	100

EQUITY IN COMMERCIAL ENTERPRISES — SCHEDULE 8

	($ millions) 2011	2010
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,951	$ 1,891
Total revenue	1,121	1,065
Total expense	908	928
Net revenue	213	137
Change in accumulated unrealized gains	(43)	(77)
Accumulated surpluses at end of year	$ 2,121	$ 1,951
Represented by		
Assets		
Loans	$ 22,947	$ 22,539
Investments	2,187	1,279
Other assets	2,413	1,761
Total assets	27,547	25,579
Liabilities		
Accounts payable	1,145	779
Deposits	23,982	22,579
Unmatured debt	68	45
Capital deposits	231	225
Total liabilities	25,426	23,628
	$ 2,121	$ 1,951
Accumulated surpluses at end of year		
ATB Financial	$ 1,964	$ 1,809
Credit Union Deposit Guarantee Corporation	154	140
N.A. Properties (1994) Ltd.	3	2
	2,121	1,951
Subordinated debentures in support of deposit guarantees	67	46
Equity in commercial enterprises at end of year	$ 2,188	$ 1,997

LOANS AND ADVANCES TO GOVERNMENT ENTITIES — SCHEDULE 9

	($ millions) 2011	2010
Agriculture Financial Services Corporation	$ 1,357	$ 1,199
Alberta Social Housing Corporation	157	180
	$ 1,514	$ 1,379

OTHER LOANS AND ADVANCES — SCHEDULE 10

	($ millions) 2011	2010
Alberta Capital Finance Authority [a]	$ 9,688	$ 8,141
Alberta Heritage Savings Trust Fund Act [b]	286	290
	9,974	8,431
Less allowance for doubtful loans, advances, implemented guarantees and indemnitites [b]	137	158
	$ 9,837	$ 8,273

(a) The fair value of the Alberta Capital Finance Authority loans as at March 31, 2011 was $10,296 million (2010: $8,647 million). Loans to the Municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 4.9% per annum (2010: 5.2%).

(b) Other amounts under the Alberta Heritage Savings Trust Fund Act include an 11% participating first mortgage bond with principal and deferred interest totaling $169 million (2010: $173 million) due July 31, 2015, non-interest bearing debentures of $114 million due July 2035, and a loan principal of $53 million due July 2046. At March 31, 2011 these investments have carrying values excluding accrued interest of $145 million, $ nil, and $3 million respectively (2010: $131 million, $ nil and $3 million).

TANGIBLE CAPITAL ASSETS — SCHEDULE 11

($ millions)

	2011				2010
	Equipment	Computer Hardware and Software	Leaseholds	Total	Total
Estimated useful life	10 years	5 years	10 years		
Historical Cost					
Beginning of year	$ 10	$ 66	$ 27	$ 103	$ 64
Additions	1	17	7	25	40
Disposals - including write-downs	-	(3)	(5)	(8)	(1)
	11	80	29	120	103
Accumulated Amortization					
Beginning of year	4	47	5	56	43
Amortization expense	-	6	3	9	14
Effect of disposals	-	(1)	(4)	(5)	(1)
	4	52	4	60	56
Net book value at March 31, 2011	$ 7	$ 28	$ 25	$ 60	
Net book value at March 31, 2010	$ 6	$ 19	$ 22		$ 47

ACCRUED INTEREST AND ACCOUNTS PAYABLE

SCHEDULE 12

	($ millions)	
	2011	**2010**
Accrued interest on unmatured debt of the Department and debt of Alberta Capital Finance Authority	$ 185	$ 187
Corporate income tax receipts in abeyance	524	462
Corporate income tax refunds payable	482	478
Fuel rebates (TEFU/PROP) [(a)]	80	-
Community Development Trust	-	32
Other	345	318
	$ 1,616	$ 1,477

(a) On February 24, 2011 rebates relating to the Tax-Exempt Fuel Use (TEFU) and Prescribed Rebates Off-Road Percentages (PROP) programs were eliminated for fuel purchased on or used after February 24, 2011. The fuel tax rebate includes estimation of the total rebates to be paid until December 31, 2015 relating to claims for fuel purchased up to and including February 24, 2011.

UNMATURED DEBT

SCHEDULE 13

	($ millions)					
	2011				**2010**	
	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)]	7.76	0.73	$ 400	$ 423	$ 493	$ 515
Fixed rate long-term [(d) (e)]	4.21	6.68	4,241	4,388	4,213	4,349
	4.53	6.16	$ 4,641	$ 4,811	$ 4,706	$ 4,864

(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) Canadian dollar fixed rate debt includes $1,686 million (2010: $1,009 million) held by the Canada Pension Plan Investment Fund.

(e) Includes Alberta Capital Bonds with a par value of $78 million (2010: $79 million) and borrowing of $1,186 million to repay the Teachers' Pension Plan liability.

UNMATURED DEBT

SCHEDULE 13, CONTINUED

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2011-12, and thereafter, are as follows:

	($ millions)
2011-12	$ 450
2012-13	319
2013-14	111
2014-15	1,196
2015-16	140
Thereafter to 2024	2,439
	4,655
Unamortized discount	(14)
	$ 4,641

None of the debt has call provisions (2010: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

SCHEDULE 14

	($ millions)			
	2011		2010	
	Book Value	Fair Value	Book Value	Fair Value
Alberta Capital Finance Authority Canadian dollar fixed rate debt [(a)]	$ 5,654	$ 6,030	$ 5,564	$ 6,316
Alberta Capital Finance Authority Canadian dollar floating rate debt	4,006	4,028	2,536	2,434
	$ 9,660	$ 10,058	$ 8,100	$ 8,750
Effective rate per annum		5.0%		5.0%

(a) Canadian dollar fixed rate debt includes $1,116 million (2010: $1,116 million) held by the Canada Pension Plan Investment Fund.

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2011-12 and thereafter are as follows:

	($ millions)
2011-12	$ 1,779
2012-13	2,125
2013-14	1,320
2014-15	700
2015-16	853
Thereafter	2,883
	$ 9,660

LIABILITY FOR PENSION OBLIGATIONS — SCHEDULE 15

The Ministry accounts for the liabilities for pension obligations that the Government of Alberta has as an employer and as an employer for organizations that are controlled by the Province, including government sector entities and Crown-controlled SUCH (schools, universities, colleges, hospitals) sector organizations for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, and Provincial Judges and Masters in Chambers Pension Plan, and Public Service Pension Plan.

The Ministry also accounts for the specific commitments made by the Government of Alberta 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 liability for the pension obligations is as follows:

($ millions)

	2011 Pension Obligation	2011 Pension Provision	2010 Pension Obligation
Obligations to pension plans for Government of Alberta's employer share for former and current employees			
Local Authorities Pension Plan (a)	$ 410	$ 96	$ 314
Management Employees Pension Plan (b)	137	45	92
Public Service Pension Plan (c)	67	67	-
Supplementary Retirement Plan for Public Service Managers (d)	40	-	40
Provincial Judges and Masters in Chambers Pension Plan (e)	2	(9)	11
	656 *	199	457
Obligations to pension plans for Government of Alberta's commitment towards pre-1992 obligations			
Teachers' Pension Plan (f)	7,540	153	7,387
Public Service Management (Closed Membership) Pension Plan (g)	621	(29)	650
Universities Academic Pension Plan (h)	316	23	293
Special Forces Pension Plan (h)	121	1	120
	8,598	148	8,450
Obligations to the Members of the Legislative Assembly (i)	44	(1)	45
	$ 9,298	$ 346	$ 8,952

* The 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, have reported a total deficiency as of the pension plans' fiscal year-ends of $7,141 million (2010:$6,261 million). The Government of Alberta's share of the total deficiency, as an employer, is $2,862 million (2010:$2,546 million) of which $2,199 million (2010: $2,086 million) is unamortized losses that will be amortized over the employee average remaining service life of each plan and $7 million (2010: $3 million) is due to timing differences between the pension plans' fiscal year-ends and March 31, 2011 resulting in the pension plan obligation reported by the Government of Alberta for these plans of $656 million (2010: $457 million).

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 6.23% of pensionable earnings shared equally between employers and employees until December 31, 2022.

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 7.8% of pensionable earnings shared between employees and employers until December 31, 2017. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 6.68% of pensionable earnings shared equally between employees and employers until December 31, 2020. 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, 2010 were unchanged at 10.5% of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers, however, the rate increased as of January 1, 2011 to 11.16%.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2011 are 7.00% of capped salary for plan members and 14.65% of capped salary for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

f) The Department of Finance and Enterprise assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,186 million towards the liability. As of September 1, 2009 the costs of all benefits for the pre-1992 pension obligation are paid by the Department.

LIABILITY FOR PENSION OBLIGATIONS **SCHEDULE 15, 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, 2009
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2009
Provincial Judges and Masters in Chambers Pension Plan	Johnson Inc.	Dec. 31, 2008
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Teachers' Pre-92 Pension Plan	Aon Consulting Inc.	Aug. 31, 2010
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2008
Members of the Legislative Assembly Pension Plan	Aon Consulting Inc.	Mar. 31, 2009

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2010 or March 31, 2011 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, 2010	3.50	2.25	6.00
Management Employees Pension Plan	Dec. 31, 2010	3.50	2.25	6.40
Supplementary Retirement Plan	Dec. 31, 2010	3.50	2.25	4.50
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2010	3.50	2.25	6.10
Public Service Pension Plan	Dec. 31, 2010	3.50	2.25	6.40
Teachers' Pre-92 Pension Plan	Mar. 31, 2011	3.50	2.25	5.00
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2010	N/A	2.25	5.00
Universities Academic Pension Plan	Mar. 31, 2011	3.50	2.25	6.50
Special Forces Pension Plan	Dec. 31, 2010	3.50	2.25	6.10
Members of the Legislative Assembly Pension Plan	Mar. 31, 2011	N/A	2.25	5.00

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

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-92 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

OTHER ACCRUED LIABILITIES — SCHEDULE 16

($ millions)

	2011	2010
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 123	$ 160
Vacation entitlements	8	9
	$ 131	$ 169

RELATED PARTY TRANSACTIONS — SCHEDULE 17

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.

RELATED PARTY TRANSACTIONS

SCHEDULE 17, CONTINUED

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

	($ millions) 2011	2010
Revenues		
Interest from loans and advances to government entities	$ 66	$ 63
Interest from loans and advances to SUCH sector	55	54
Charges for services	14	12
	$ 135	$ 129
Expenses		
Debt servicing costs - school boards debt	$ 15	$ 20
Transfers	215	214
Cost of services	2	2
	$ 232	$ 236
Assets		
Accounts receivable	$ -	$ 13
Accrued interest receivable from government entities	14	13
Accrued interest receivable from SUCH sector	16	18
Loans and advances to government entities	1,514	1,379
Loans and advances to SUCH sector	992	961
	$ 2,536	$ 2,384
Liabilities		
Other accrued liabilities - Future funding of school boards debt	$ 124	$ 160

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) 2011	2010
Expenses – incurred by others		
Accommodation and other costs	$ 7	$ 7
Corporate and internal audit services	3	-
Legal services	2	2
	$ 12	$ 9

Financial Information

Department of Finance and Enterprise

Department of Finance and Enterprise

Financial Statements

Year Ended March 31, 2011

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AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Minister of Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Finance and Enterprise, which comprise the statement of financial position as at March 31, 2011 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 Finance and Enterprise as at March 31, 2011 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, CA]

Auditor General

May 31 , 2011

Edmonton, Alberta

Financial Information

Statement of Operations

Year ended March 31, 2011

	2011 Budget (Schedule 3)	2011 Actual	2010 Actual
	($ millions)		
Revenues (Schedule 1)			
Internal government transfers	$ 685	$ 720	$ 2,006
Income taxes	11,761	10,791	12,631
Other taxes	2,033	1,913	1,905
Investment income	466	715	768
Premiums, fees and licences	64	111	69
Transfers from Government of Canada	32	36	37
Other	4	5	5
	15,045	14,291	17,421
Expenses - directly incurred (Note 2 (c) and Schedule 18)			
Voted (Schedules 2 and 4)			
Ministry Support Services	11	11	11
Fiscal Planning and Economic Analysis	5	4	4
Tax and Revenue Management	33	31	32
Investment, Treasury and Risk Management	20	11	11
Financial Sector and Pensions	9	8	7
Enterprise	21	22	21
Debt servicing costs - school construction	15	15	20
	114	102	106
Statutory (Schedules 2 and 4)			
Internal Government Transfers to:			
Access to the Future Fund	48	48	48
Interest payments on corporate tax refunds	9	3	25
Pension liability funding	78	80	78
Teachers' pre-1992 pension liability funding	437	418	341
Debt servicing costs	273	230	166
Valuation adjustments (Schedule 5)	476	346	357
	1,321	1,125	1,015
	1,435	1,227	1,121
Net Operating Results	$ 13,610	$ 13,064	$ 16,300

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

Statement of Financial Position

As at March 31, 2011

	($ millions) 2011	2010
Assets		
Cash and temporary investments (Schedule 7)	$ 2,098	$ 4,558
Accounts and accrued interest receivable (Schedule 8)	2,011	1,627
Portfolio investments (Schedule 9)	11,323	15,169
Loans and advances to government entities (Schedule 10)	1,549	1,414
Tangible capital assets (Schedule 11)	10	9
	$ 16,991	$ 22,777
Liabilities		
Bank overdraft	$ 812	$ 875
Accounts and accrued interest payable (Schedule 12)	1,163	1,080
Unmatured debt (Schedule 13)	4,641	4,706
Pension obligations (Schedule 14)	9,298	8,952
Other accrued liabilities (Schedule 15)	129	166
	16,043	15,779
Net Assets		
Net assets at beginning of year	6,998	10,627
Net operating results	13,064	16,300
Net financing provided for general revenues (Note 2 (b))	(19,114)	(19,929)
Net assets at end of year	948	6,998
	$ 16,991	$ 22,777

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

Statement of Cash Flows

Year ended March 31, 2011

	($ millions) 2011	2010
Operating transactions		
Net operating results	$ 13,064	$ 16,300
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(52)	(103)
Amortization of tangible capital assets (Schedule 2)	2	1
Valuation adjustments (Schedule 5)	346	357
	13,360	16,555
(Increase) Decrease in receivables	(384)	426
Increase (Decrease) in payables	83	(247)
Cash provided by operating transactions	13,059	16,734
Capital transactions		
Acquisition of tangible capital assets (Schedule 11)	(3)	(3)
Cash applied to capital transactions	(3)	(3)
Investing transactions		
Disposals of portfolio investments	9,443	13,028
Portfolio investments purchased	(5,543)	(13,289)
Repayments of loans and advances		
Government entities	885	1,774
Other	1	1
Loans and advances - Government entities	(1,018)	(1,841)
Cash provided by (applied to) investing transactions	3,768	(327)
Financing transactions		
Debt issues	6,999	6,941
Debt retirement	(7,069)	(4,227)
Repayment of Teachers' Pre-92 Pension Plan obligation	-	(1,186)
Grants for school construction debenture principal repayment (Schedule 4)	(37)	(44)
Net financing provided for general revenues	(19,114)	(19,929)
Cash applied to financing transactions	(19,221)	(18,445)
Decrease in cash	(2,397)	(2,041)
Cash and temporary investments, net of bank overdraft, beginning of year	3,683	5,724
Cash and temporary investments, net of bank overdraft, end of year	$ 1,286	$ 3,683

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

Notes to the Financial Statements

March 31, 2011

(All dollar amounts in millions, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

The Department of Finance and Enterprise has the following core areas/functions: Budget and Fiscal Planning; Treasury Management; Risk Management and Insurance; Tax and Revenue Administration; Financial Sector Regulation and Policy; Enterprise including Industry and Regional Development, and Alberta Economic Development Authority and the Northern Alberta Development Council; Regulatory Review Secretariat; and Corporate Support.

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 Finance and Enterprise, which is part of the Ministry of Finance and Enterprise and for which the Minister of Finance and Enterprise is accountable. Other entities reporting to the Minister of Finance and Enterprise are as follows:

1. Alberta Heritage Savings Trust Fund,
2. Alberta Heritage Foundation for Medical Research Endowment Fund,
3. Alberta Heritage Scholarship Fund,
4. Alberta Heritage Science and Engineering Research Endowment Fund,
5. Alberta Cancer Prevention Legacy Fund,
6. Alberta Risk Management Fund,
7. Provincial Judges and Masters in Chambers Reserve Fund,
8. Supplementary Retirement Plan Reserve Fund,
9. Alberta Securities Commission,
10. Alberta Capital Finance Authority,
11. Alberta Insurance Council,
12. Alberta Pensions Services Corporation,
13. Alberta Local Authorities Pension Plan Corp.,
14. Alberta Investment Management Corporation,
15. ATB Financial and its subsidiaries,
16. Credit Union Deposit Guarantee Corporation,
17. N.A. Properties (1994) Ltd. and
18. Gainers Inc.

Financial Information

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 operate within the General Revenue Fund (the Fund). The Minister of Finance and Enterprise administers the Fund. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the 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 of Finance and Enterprise.

c) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

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.

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

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

Internal Government Transfers

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

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.
- Valuation adjustments, which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to guarantees, indemnities, pension obligations, loans repayable from future appropriations, and accrued employee vacation entitlements.
- 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 disclosed in Schedule 18.

Assets

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, tax payers, employees and other individuals.

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

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

Tangible capital assets 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.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Foreign Currency

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

Derivatives

Income and expense from derivative contracts are included in investment income or debt servicing costs. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the specific assets and liabilities being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged asset or liability and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures contracts and forward foreign exchange contracts, are recorded at fair value.

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

Net Assets

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

Measurement Uncertainty

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

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

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

Personal income tax revenue, totaling $7,516 million (2010: $7,877 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 4.7% (2010: 1.5%).

Corporate income tax revenue, totaling $3,275 million (2010: $4,754 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Department records corporate income tax revenue as 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.

Pension provisions of $346 million (2010: $356 million), see Schedule 5, are subject to measurement uncertainty because a Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits.

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 temporary investments, accounts and accrued interest receivable, bank overdraft, accounts and accrued interest payable, and other accrued liabilities are estimated to approximate their book 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 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 most effective liability risk management strategy would be 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 5 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)

	2011	2010
Service contracts	$ 10,160	$ 9,536

The aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

($ thousands)

	2011 Service Contracts
2011-12	7,293
2012-13	2,087
2013-14	411
2014-15	260
2015-16	109
	$ 10,160

NOTE 6 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

Guaranteed liabilities at March 31, 2011 of government entities amounting to $33,870 million (2010: $30,933 million) are analyzed in Schedule 16. Schedule 16 is included with the financial statements because payments under debenture and loan guarantees are a statutory charge on the Department.

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, 2011 credit unions in Alberta held deposits totaling $16,680 million (2010: $15,996 million). Substantial assets are available from credit unions to safeguard the Department from risk of lose from its potential obligation under the Act.

For ATB Financial the repayment of all deposits without limit, including accrued interest, is guaranteed by the Province of Alberta, through the Department. The Department assesses an annual deposit guarantee fee payable of $25 million (2010: $24 million) by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2011, ATB Financial had deposits totalling $23,982 million (2010: $22,579 million).

b) LEGAL ACTIONS

At March 31, 2011, 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, 2011, the Department is jointly or separately named as a defendant in thirty-three (2010: twenty-six) legal claims. Of the thirty-three claims, twenty-eight have specified amounts totaling approximately $334 million (2010: $124 million) and five claims have no specified amount. Five (2010: four) claims totaling $1 million (2010: $1 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2011, some taxes assessed were under objection and some were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 7 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, 2011, trust and other funds under administration were as follows:

	($ millions)	
	2011	2010
Local Authorities Pension Plan Fund	$ 18,159	$ 15,803
Public Service Pension Plan Fund	6,348	5,617
Special Forces Pension Plan Fund	1,527	1,370
Universities Academic Pension Plan Fund	2,602	2,336
Management Employees Pension Plan Fund	2,627	2,362
The Workers' Compensation Board Accident Fund	1,359	1,416
Other	224	217
	$ 32,846	$ 29,121

NOTE 8 DEFINED BENEFIT PLANS

The Department sponsors and participates in the multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The annual contributions of these plans are equivalent to $6 million for the year ended March 31, 2011 (2010: $6 million).

At December 31, 2010, the Management Employees Pension Plan reported a deficiency of $397 million (2009: $483 million), the Public Service Pension Plan reported a deficiency of $2,067 million (2009: $1,729 million) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $40 million (2009: $40 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2011, the Bargaining Unit Plan reported a deficiency of $4 million (2010: $8 million) and the Management, Opted Out and Excluded Plan reported a surplus of $7 million (2010: $7 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 9 COMPARATIVE FIGURES

Certain 2010 figures have been reclassified to conform to the 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Senior Financial Officer and the Deputy Minister approved these financial statements.

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES

SCHEDULE 1

	2011 Budget	2011 Actual	2010 Actual
	($ millions)		
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 685	$ 720	$ 2,006
	685	720	2,006
Income taxes			
Personal income tax	8,648	7,516	7,877
Corporate income tax	3,113	3,275	4,754
	11,761	10,791	12,631
Other taxes			
Tobacco tax	880	893	864
Fuel tax	760	662	701
Insurance taxes	323	284	272
Alberta tourism levy	63	65	60
Special broker tax	7	9	7
Financial institutions capital	-	-	1
	2,033	1,913	1,905
Investment income	466	715	768
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	30	59	38
ATB Financial deposit guarantee fees	25	25	24
Other	9	27	7
	64	111	69
Transfers from Government of Canada			
Community Development Trust	27	32	33
Unconditional Grant	5	4	4
	32	36	37
Other revenues	4	5	5
	$ 15,045	$ 14,291	$ 17,421

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

	($ millions)		
	2011		**2010**
	Budget	**Actual**	**Actual**
Voted			
Salaries, wages and employee benefits	$ 61	$ 56	$ 56
Supplies and services	28	19	22
Supplies and Services from Support Service Arrangements from Related Parties [(a)]	2	2	2
Grants	20	21	24
Financial transactions and other	1	2	1
Amortization of tangible capital assets	2	2	1
	$ 114	$ 102	$ 106
Statutory			
Internal Government Transfers to:			
Access to the Future Fund	$ 48	$ 48	$ 48
Interest payments on corporate tax refunds	9	3	25
Pension liability funding	515	498	419
Debt servicing costs	273	230	166
Valuation adjustments (Schedule 5)	476	346	357
	$ 1,321	$ 1,125	$ 1,015
	$ 1,435	$ 1,227	$ 1,121

[(a)] The Department receives financial and administrative services from the Department of Service Alberta.

BUDGET

SCHEDULE 3

	2010-11 Estimates	Adjustments (a)	2010-11 Budget	Authorized Supplementary Estimates (b)	2010-11 Authorized Budget
	($ millions)				
Revenues					
Internal government transfers	$ 685	$ -	$ 685	$ -	$ 685
Income taxes	11,761	-	11,761	-	11,761
Other taxes	2,033	-	2,033	-	2,033
Investment income	466	-	466	-	466
Premiums, fees and licences	64	-	64	-	64
Transfers from Government of Canada	32	-	32	-	32
Other	4	-	4	-	4
	15,045	-	15,045	-	15,045
Expenses - Directly Incurred					
Voted					
Ministry support services	11	-	11	-	11
Fiscal Planning and Economic Analysis	5	-	5	-	5
Tax and Revenue Management	33	-	33	-	33
Investment, Treasury and Risk Management	20	-	20	-	20
Financial Sector and Pensions	9	-	9	-	9
Enterprise	21	-	21	-	21
Debt servicing costs - school construction	15	-	15	-	15
	114	-	114	-	114
Statutory					
Internal government transfers					
Access to the Future Fund	48	-	48	-	48
Interest payments on corporate tax refunds	9	-	9	-	9
Pension liability funding	78	-	78	-	78
Teachers' pre-1992 pension - liability funding	437	-	437	-	437
Debt servicing costs	273	-	273	-	273
Valuation adjustments (Schedule 5)	1	475	476	-	476
	846	475	1,321	-	1,321
	960	475	1,435	-	1,435
Net operating results	$ 14,085	$ (475)	$ 13,610	$ -	$ 13,610
Equipment/inventory purchases	$ 3	$ -	$ 3	$ -	$ 3

(a) Adjustments consisted of $475 million for pension provisions. 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.

(b) Estimates were approved on February 24, 2010 and there were no supplementary estimates for the Department.

Financial Information

Financial Information

COMPARISION OF EXPENSES

SCHEDULE 4

Directly incurred, Equipment / Inventory Purchases (EIP) and capital investments, statutory expenses, and non-budgetary Disbursements by Element to Authorized Budget

($ thousands)

	2010-11 Budget	Adjustments	2010-11 Authorized Budget	2010-11 Actual Expense	Unexpended (Over Expended)
VOTED EXPENSES					
Ministry Support Services					
Operating Expense					
Minister's Office	$ 525	$ -	$ 525	$ 441	$ 84
Deputy Minister's Office	827	-	827	800	27
Strategic and Business Services	8,591	-	8,591	8,421	170
Communications	691	-	691	685	6
Cabinet Policy Committee on the Economy	240	-	240	251	(11)
	10,874	-	10,874	10,598	276
Equipment/Inventory Purchases	180	-	180	232	(52)
	11,054	-	11,054	10,830	224
Fiscal Planning and Economic Analysis					
Operating Expense					
Budget and Fiscal Planning	4,509	-	4,509	3,796	713
	4,509	-	4,509	3,796	713
Tax and Revenue Management					
Operating Expense					
Tax and Revenue Administration	33,568	-	33,568	31,373	2,195
	33,568	-	33,568	31,373	2,195
Equipment/Inventory Purchases	2,292	-	2,292	2,026	266
	35,860	-	35,860	33,399	2,461
Investment, Treasury and Risk Management					
Operating Expense					
Treasury Management	18,367	-	18,367	9,260	9,107
Risk Management and Insurance	1,564	-	1,564	1,542	22
	19,931	-	19,931	10,802	9,129
Equipment/Inventory Purchases	-	-	-	12	(12)
	19,931	-	19,931	10,814	9,117
Financial Sector and Pensions					
Operating Expense					
Assistant Deputy Minister's Office	1,625	-	1,625	2,252	(627)
Regulations of Pensions, Insurance and Financial Institutions	4,102	-	4,102	3,326	776
Public Sector Pensions	1,465	-	1,465	1,061	404
Capital Market Policy	481	-	481	379	102
Automobile Insurance Rate Board	1,364	-	1,364	1,116	248
	9,037	-	9,037	8,134	903
Equipment/Inventory Purchases	340	-	340	319	21
	9,377	-	9,377	8,453	924

COMPARISION OF EXPENSES

SCHEDULE 4, CONTINUED

Directly incurred, Equipment / Inventory Purchases (EIP) and capital investments, statutory expenses, and non-budgetary Disbursements by Element to Authorized Budget

($ thousands)

	2010-11 Budget	Adjustments (a)	2010-11 Authorized Budget (b)	2010-11 Actual Expense	Unexpended (Over Expended)
Enterprise					
Operating Expense					
Regulatory Review Secretariat	652	-	652	583	69
Program Development and Support	2,542	-	2,542	2,545	(3)
Alberta Economic Development Authority	619	-	619	677	(58)
Northern Alberta Development Council	2,261	-	2,261	2,262	(1)
Industry Development	7,915	-	7,915	7,373	542
Regional Development	6,515	-	6,515	8,285	(1,770)
	20,504	-	20,504	21,725	(1,221)
Voted Debt Servicing Costs - Grants for School Construction Debenture Interest					
Operating Expense	15,500	-	15,500	15,475	25
	$ 116,735	$ -	$ 116,735	$ 104,492	$ 12,243
Summary					
Program Operating Expense	$ 113,923	$ -	$ 113,923	$ 101,903	$ 12,020
Equipment/Inventory Purchases	2,812	-	2,812	2,589	223
	$ 116,735	$ -	$ 116,735	$ 104,492	$ 12,243
STATUTORY EXPENSES					
Internal Government Transfers to:					
Access to the Future Fund	$ 48,398	$ -	$ 48,398	$ 48,398	$ -
Farm credit stability program	7	-	7	1	6
Interest payments on corporate tax refunds	9,000	-	9,000	3,010	5,990
Pension liability funding	78,300	-	78,300	79,589	(1,289)
Teachers' pre-1992 pension liability funding	437,000	-	437,000	417,681	19,319
Debt servicing costs	272,642	-	272,642	230,611	42,031
Valuation adjustments (Schedule 5)	1,000	475,000	476,000	345,517	130,483
	$ 846,347	$ 475,000	$ 1,321,347	$ 1,124,807	$ 196,540
Voted Non-Budgetary Disbursements					
Grants for school construction debenture principal repayment	$ 36,917	$ -	$ 36,917	$ 36,917	$ -

(a) Adjustments consisted of $475 million for pension provisions. 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.

(b) Estimates were approved on February 24, 2010 and there were no supplementary estimates for the Department.

Financial Information

VALUATION ADJUSTMENTS

SCHEDULE 5

	2011 Budget	2011 Actual	2010 Actual
	($ millions)		
Pension provisions (Schedule 14)	$ 475	$ 346	$ 356
Provision for employee benefits, guarantees and indemnities	1	-	1
	$ 476	$ 346	$ 357

SALARY AND BENEFITS DISCLOSURE

SCHEDULE 6

	2011 Base Salary (a)	2011 Other Cash Benefits (b)	2011 Other Non-Cash Benefits (c)	2011 Total	2010 Total
	($ thousands)				
Senior Officials					
Deputy Minister of Finance and Enterprise (d)	$ 265	$ 2	$ 65	$ 332	$ 311
Executives					
Assistant Deputy Minister, Financial Sector Regulation and Policy (e)	216	118	6	340	223
Assistant Deputy Minister, Treasury and Risk Management	213	2	53	268	266
Assistant Deputy Minister, Tax and Revenue Administration (e)	174	67	39	280	197
Assistant Deputy Minister, Budget and Fiscal Planning	172	2	42	216	214
Assistant Deputy Minister, Strategic & Business Services	172	2	42	216	213
Assistant Deputy Minister, Enterprise (e)	179	53	37	269	251
Executive Director, Human Resources (e)	115	2	27	144	150

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

(a) Base salary includes pensionable base pay.

(b) Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2011.

(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 during 2011.

CASH AND TEMPORARY INVESTMENTS — SCHEDULE 7

	($ millions) 2011	2010
Fixed-income securities [(a)]		
Corporate	$ 648	$ 2,037
Provincial, direct and guaranteed	46	1,059
Municipal	6	49
Government of Canada, direct and guaranteed	542	316
	1,242	3,461
Deposit in Consolidated Cash Investment Trust Fund [(b)]	690	947
Cash in bank and in transit	166	150
	$ 2,098	$ 4,558

(a) Fixed-income securities have an average effective yield of 0.93% (2010: 0.34%) per annum. The majority of the securities have terms to maturity of less than one year (2010: less than one year).

(b) 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, 2011, securities held by the Fund have a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

Financial Information

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE — SCHEDULE 8

	($ millions) 2011	2010
Corporate income tax	$ 705	$ 746
Personal income tax	562	412
Receivable from the Alberta Heritage Savings Trust Fund	276	6
Accrued interest receivable	132	168
ATB Financial	152	107
Insurance corporations tax	81	79
Fuel Tax	61	52
Tobacco tax	11	10
Alberta tourism levy	6	5
Lottery Fund	-	13
Contributions receivable from Credit Union Deposit Corporation	-	6
Other	26	24
	2,012	1,628
Less allowance for doubtful accounts	1	1
	$ 2,011	$ 1,627

PORTFOLIO INVESTMENTS — SCHEDULE 9

	2011 Book Value	2011 Fair Value	2010 Book Value	2010 Fair Value
	($ millions)			
Fixed-income securities				
Corporate	$ 4,207	$ 4,302	$ 6,571	$ 6,750
Provincial, direct and guaranteed	2,781	2,867	4,415	4,536
Government of Canada, direct and guaranteed	4,194	4,238	3,954	4,013
Municipal	141	145	229	233
	$ 11,323	$ 11,552	$ 15,169	$ 15,532

The Department's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters. The securities held have an average effective market yield of 2.3% (2010: 3.7%) per annum and the following terms to maturity: under one year: 15%; one to five years: 73%; five to ten years: 8%; over ten years: 4%.

The Department's fixed income securities are held directly or indirectly in pooled investments funds such as the Short-Term Bond Pool and Universe Fixed Income Pool. The Department's investments are managed by Alberta Investment Management Corporation (AIMCo).

Included in the fair value of the Department's investments is the fair value of 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $6 million, or 0.05% of total investments (2010: $6 million or 0.04% of total investments).

The following is a summary of the Department's proportionate share of the notional amount andfair value for each class of derivative financial instruments included in the fair value of portfolio investments at March 31, 2011 (in millions):

	Maturity			2011		2010	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount [a]	Fair Value [b]	Notional Amount	Fair Value
Interest rate derivatives [c]	46%	2%	52%	$ 414	$ 11	$ 179	$ 13
Foreign currency derivatives [d]	100%	0%	0%	46	1	47	1
Credit risk derivatives [e]	50%	15%	35%	661	(6)	1,198	(9)
Derivative-related receivables, net					6		5
Deposits in futures contracts margin accounts					-		1
Net derivative-related investments					$ 6		$ 6

PORTFOLIO INVESTMENTS — SCHEDULE 9, CONTINUED

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Department 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) 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.

(d) 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.

(e) 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.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES — SCHEDULE 10

($ millions)

	2011	2010
Agriculture Financial Services Corporation	$ 1,357	$ 1,199
Alberta Social Housing Corporation	157	181
Alberta Investment Management Corporation	32	32
Other	3	2
	$ 1,549	$ 1,414

TANGIBLE CAPITAL ASSETS — SCHEDULE 11

($ millions)

	2011	2010
	Computer Hardware & Software	Computer Hardware & Software
Estimated useful life	5 years	5 years
Historical Cost		
Beginning of year	$ 27	$ 24
Additions	3	3
	30	27
Accumulated Amortization		
Beginning of year	18	17
Amortization expense	2	1
	20	18
Net book value at March 31st	$ 10	$ 9

ACCOUNTS AND ACCRUED INTEREST PAYABLE

SCHEDULE 12

	($ millions) 2011	2010
Corporate income tax receipts in abeyance	$ 524	$ 462
Corporate income tax refunds payable	482	478
Fuel tax rebates (TEFU/PROP) [(a)]	80	-
Accrued interest on unmatured debt	52	47
Community Development Trust	-	32
Other	25	61
	$ 1,163	$ 1,080

(a) On February 24, 2011 rebates relating to the Tax-Exempt Fuel Use (TEFU) and Prescribed Rebates Off-Road Percentages (PROP) programs were eliminated for fuel purchased on or used after February 24, 2011. The fuel tax rebate includes estimation of the total rebates to be paid until December 31, 2015 relating to claims for fuel purchased up to and including February 24, 2011.

UNMATURED DEBT

SCHEDULE 13

($ millions)

	2011				2010	
	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)]	7.76	0.73	$ 400	$ 423	$ 493	$ 515
Fixed rate long-term [(d)(e)]	4.21	6.68	4,241	4,388	4,213	4,349
	4.53	6.16	$ 4,641	$ 4,811	$ 4,706	$ 4,864

(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) Canadian dollar fixed rate debt includes $768 million (2010: $1,009 million) held by the Canada Pension Plan Investment Fund.

(e) Includes Alberta Capital Bonds with a par value of $78 million (2010: $79 million) and borrowing of $1,182 million (2010: $1,186 million) to repay the Teachers' Pension Plan liability.

Debt principal repayment requirements at par in each of the next five years, including short-term debt, maturing in 2011-12, and thereafter are as follows:

	($ millions)
2011-12	$ 450
2012-13	319
2013-14	112
2014-15	1,195
2015-16	140
Thereafter	2,439
	4,655
Unamortized discount	(14)
	$ 4,641

None of the debt has call provisions (2010: none).

Derivative Financial Instruments

The Department uses interest rate swaps contracts to manage the interest rate risk associated with unmatured debt. Associated with these instruments are credit risks that could expose the Department to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Department minimizes its credit risk associated with these contracts by dealing with only the most credit worthy counter-parties.

Interest rate swaps involve the exchange of a series of interest payments, either at a fixed or floating rate, based upon a contractual or notional principal amount. An interest rate swap agreement based upon a notional amount involves no exchange of underlying principal. The notional amount serves as the basis for determining the exchange of interest payments.

The following table summarizes the Department's derivative portfolio. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the financial statements. The fair value of interest rate swaps are based on discounted cash flows using current market yields and exchange rates.

($ millions)

	2011		2010	
	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
Interest rate swaps	$ 100	-	$ 100	1

Financial Information

LIABILITY FOR PENSION OBLIGATIONS — SCHEDULE 14

The Department accounts for the liabilities for pension obligations that the Government of Alberta has as an employer and as an employer for organizations that are controlled by the Province, including government sector entities and Crown-controlled SUCH sector organizations 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.

The Department also accounts for the specific commitments made by the Government of Alberta 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.

The liability for the pension obligations is as follows:

($ millions)

	2011 Pension Obligation	2011 Pension Provision (Recovery)	2010 Pension Obligation
Obligations to pension plans for Government of Alberta's employer share for former and current employees			
Local Authorities Pension Plan [a]	$ 410	$ 96	$ 314
Management Employees Pension Plan [b]	137	45	92
Public Service Pension Plan [c]	67	67	-
Supplementary Retirement Plan for Public Service Managers [d]	40	-	40
Provincial Judges and Masters in Chambers Pension Plan [e]	2	(9)	11
	656 ★	199	457
Obligations to pension plans for Government of Alberta's commitment towards pre-1992 obligations			
Teachers' Pension Plan [f]	7,540	153	7,387
Public Service Management (Closed Membership) Pension Plan [g]	621	(29)	650
Universities Academic Pension Plan [h]	316	23	293
Special Forces Pension Plan [h]	121	1	120
	8,598	148	8,450
Obligations to the Members of the Legislative Assembly [i]	44	(1)	45
	$ 9,298	$ 346	$ 8,952

★ The 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, have reported a total deficiency as of the pension plans' fiscal year-ends of $7,141 million (2010: $6,261 million). The Government of Alberta's share of the total deficiency, as an employer, is $2,862 million (2010: $2,546 million) of which $2,199 million (2010: $2,086 million) is unamortized losses that will be amortized over the employee average remaining service life of each plan and $7 million (2010: $3 million) is due to timing differences between the pension fiscal year-ends and March 31, 2011 resulting in the pension plan obligation reported by the Government of Alberta for these plans of $656 million (2010: $457 million).

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

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 6.23% of pensionable earnings shared equally between employers and employees until December 31, 2022.

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 7.8% of pensionable earnings shared between employees and employers until December 31, 2017. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 6.68% of pensionable earnings shared equally between employees and employers until December 31, 2020. 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, 2009 were unchanged at 10.5% of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers, however, the rate increased as of January 1, 2011 to 11.16%.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2011 are 7.00% of capped salary for plan members and 14.65% of capped salary for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

f) The Department of Finance and Enterprise assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,186 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

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, 2009
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2009
Provincial Judges and Masters in Chambers Pension Plan	Johnson Inc.	Dec. 31, 2008
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Teachers' Pre-92 Pension Plan	Aon Consulting Inc.	Aug. 31, 2010
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2008
Members of the Legislative Assembly Pension Plan	Aon Consulting Inc.	Mar. 31, 2009

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2010 or March 31, 2011 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.

LIABILITY FOR PENSION OBLIGATIONS — SCHEDULE 14, CONTINUED

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

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2010	3.50	2.25	6.00
Management Employees Pension Plan	Dec. 31, 2010	3.50	2.25	6.40
Supplementary Retirement Plan	Dec. 31, 2010	3.50	2.25	4.50
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2010	3.50	2.25	6.10
Public Service Pension Plan	Dec. 31, 2010	3.50	2.25	6.40
Teachers' Pre-92 Pension Plan	Mar. 31, 2011	3.50	2.25	5.00
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2010	N/A	2.25	5.00
Universities Academic Pension Plan	Mar. 31, 2011	3.50	2.25	6.50
Special Forces Pension Plan	Dec. 31, 2010	3.50	2.25	6.10
Members of the Legislative Assembly Pension Plan	Mar. 31, 2011	N/A	2.25	5.00

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

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-92 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

OTHER ACCRUED LIABILITIES — SCHEDULE 15

	($ millions) 2011	2010
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 123	$ 160
Vacation entitlements	6	6
	$ 129	$ 166

GUARANTEED DEBT OF GOVERNMENT ENTITIES — SCHEDULE 16

	($ millions) 2011 Department of Finance and Enterprise	2011 Others	2011 Total	2010 Total
Debentures				
Alberta Capital Finance Authority	$ -	$ 9,660	$ 9,660	$ 8,100
Alberta Social Housing Corporation	157	71	228	254
	157	9,731	9,888	8,354
Deposits				
ATB Financial	-	23,982	23,982	22,579
	$ 157	$ 33,713	$ 33,870	$ 30,933

GUARANTEED DEBT OF GOVERNMENT ENTITIES — SCHEDULE 16, CONTINUED

Guarantees include principal borrowings only and exclude guaranteed interest, the amount of which is not determinable.

The net asset position from the most recent financial statements of government entities with guaranteed liabilities are reported below.

			($ millions)	
Entity	**Date**	**Position**	**2011**	**2010**
Alberta Capital Finance Authority	Dec. 31, 2010	Shareholders' Equity	$ 91	$ 57
Alberta Social Housing Corporation	Mar. 31, 2011	Surplus	$ 714	$ 656
ATB Financial	Mar. 31, 2011	Equity	$ 1,964	$ 1,809

RELATED PARTY TRANSACTIONS — SCHEDULE 17

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 2(a), 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 Assistant Deputy Minister of Finance and Enterprise, Financial Sector Regulation and Policy is a director of the Alberta Pensions Services Corporation and the Deputy Minister of Finance and Enterprise is a director of the Alberta Capital Finance Authority. Alberta Pensions Services Corporation is wholly owned and Alberta Capital Finance Authority is 70% owned by the Government of Alberta, through the Department. Neither of these two officials received any benefit during the year, in cash or in kind, as a result of these directorships.

The investment in Alberta Capital Finance Authority is recorded at cost because the Corporation has the authority to pay its retained earnings, which amounted to $91 million at December 31, 2010 (2009: $57 million), to municipal and other shareholders, which have borrowed money from the Corporation. During the 2011 fiscal year, the Department paid $52 million (2010: $64 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 17, CONTINUED**

	($ millions)			
	Entities in the Ministry		Other Entities	
	2011	2010	2011	2010
Revenues				
Transfers	$ 721	$ 2,006	$ -	$ -
Interest	3	2	66	63
Charges for services	91	64	-	-
	$ 815	$ 2,072	$ 66	$ 63
Expenses				
Cost of services	$ 10	$ 9	$ 66	$ 70
Assets				
Accounts receivable	$ 434	$ 113	$ -	$ 13
Accrued interest receivable	3	3	14	13
Loans and advances to government entities	35	34	1,514	1,379
	$ 472	$ 150	$ 1,528	$ 1,405
Liabilities				
School Construction Debentures	$ -	$ -	$ 123	$ 160

	($ millions)	
	Other Entities	
	2011	2010
Expenses - incurred by others		
Accommodation and air travel	$ 7	$ 7
Corporate and internal audit services	3	-
Legal services	2	2
	$ 12	$ 9

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

Financial Information

ALLOCATED COSTS BY PROGRAM

SCHEDULE 18

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 18.

Total allocated costs of $1,239 million are comprised of total expenses per Statement of Operations amounting to $1,227 million and expenses incurred by others amounting to $12 million.

1. Expenses – directly incurred as per Statement of Operations, excluding valuation adjustments.
2. Includes accommodation and air travel $7 million, corporate and internal audit services of $3 million and legal services $2 million.
3. Includes pension provisions of $346 million.

($ millions)

Program	Expenses (1)	Expenses Incurred by Others (2)	Valuation Adjustments (3)	Total 2011	Total 2010
Ministry support services	$ 11	$ 3	$ -	$ 14	$ 13
Fiscal planning and economic analysis	4	-	-	4	4
Tax and revenue management	31	4	-	35	61
Enterprise	22	3	-	25	22
Investment, treasury and risk management	11	2	-	13	14
Financial sector and pensions	8	-	-	8	7
Teachers' pension liability funding	418	-	-	418	341
Transfers and debt servicing costs and pension	376	-	346	722	668
	$ 881	$ 12	$ 346	$ 1,239	$ 1,130

Financial Information

Regulated Funds

Regulated Funds

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ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Minister of Finance and Enterprise

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, 2011, and the statements of operations and net assets, 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, 2011, 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, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2011

	($ thousands) 2011	2010
Assets		
Portfolio investments (Note 3)	$ 491,983	$ 488,675
Liabilities		
Transfer payable	$ 1,000	$ -
Administration expense payable	7	14
	1,007	14
Net Assets (Note 5)	490,976	488,661
	$ 491,983	$ 488,675

Statement of Operations and Net Assets

Year Ended March 31, 2011

	($ thousands) 2011 Budget	2011 Actual	2010 Actual
Investment income (Note 6)	$ 12,000	$ 21,401	$ 25,952
Investment expenses (Note 7)	-	(336)	(248)
Net investment income	12,000	21,065	25,704
Transfers to the Ministry of:			
Health and Wellness (Note 5b)	(25,000)	(18,750)	(21,874)
Change in net assets	$ (13,000)	2,315	3,830
Net assets at beginning of year		488,661	484,831
Net assets at end of year		$ 490,976	$ 488,661

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2011

	($ thousands) 2011	2010
Operating transactions		
Net investment income	$ 21,065	$ 25,704
Non-cash items included in net investment income	(823)	(636)
	20,242	25,068
Increase (decrease) in payables	993	(12)
Cash provided by operating transactions	21,235	25,056
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	25,000	21,874
Purchase of investments	(20,340)	(25,173)
Cash provided by (applied to) investing transactions	4,660	(3,299)
Transfers		
Transfers to the Ministry of Health and Wellness	(18,750)	(21,874)
Cash applied to transfers	(18,750)	(21,874)
Increase (decrease) in cash	7,145	(117)
Cash at beginning of year	85	202
Cash at end of year	$ 7,230	$ 85
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 7,230	$ 85

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2011
($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

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

The Fund invests the transfers made to the Fund. The portfolio is comprised of high-quality interest-bearing investments. The Act states that the Minister of Finance and Enterprise 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 Finance and Enterprise shall pay money from the Fund that is required by the Minister of Health and Wellness 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) PORTFOLIO INVESTMENTS

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

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. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

b) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

Net recognized gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Financial Information

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

c) FOREIGN CURRENCY

Foreign currency transactions 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. Exchange differences on transactions are included in the determination of investment income.

d) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

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.

Changes in estimated fair value of investments are reported in the period in which new information is received.

The methods used by the Alberta Investment Management Corporation (AIMCo) to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

i) 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.

ii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

NOTE 3 PORTFOLIO INVESTMENTS (in thousands)

	2011			2010		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits [(a)]	$ 7,230	$ 7,230	1.5	$ 85	$ 85	-
Bonds [(b)]	484,753	490,370	98.5	488,590	498,265	100.0
	$ 491,983	**$ 497,600**	**100.0**	**$ 488,675**	**$ 498,350**	**100.0**

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 investment policies approved by the Minister of Finance and Enterprise. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in 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 authority to independently purchase and sell securities in the pools.

a) Deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% (2010: 1.0% per annum).

b) Interest-bearing bonds include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities. At March 31, 2011, interest bearing bonds had an average effective market yield of 7.0% per annum (2010: 4.6% per annum) and the following term structure based on principal amount: under 1 year: 12% (2010: 9%); 1 to 5 years: 80% (2010: 82%); 5 to 10 years: 7% (2010: 8%); and over 20 years: 1% (2010: 1%).

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 and interest rate risk. Liquidity risk is the risk the Fund will not be able to meet its cash flow obligations as they fall due.

The Ministry of Finance and Enterprise 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.

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 Fund. 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. Interest bearing securities reported in Note 3, primarily include investment grade bonds, and notes and short-term securities issued by governments and corporations. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Interest rate risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $13 million (2010: $13 million).

Financial Information

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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. These sources of cash are used to pay cash calls and operating expenses, and purchase new investments. The Fund's future liabilities include cash requests from the Minister of Health and Wellness for the purposes of the Act and payables for investment purchases.

NOTE 5 NET ASSETS (in thousands)

Net assets represent the difference between the carrying value of 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:

($ thousands)

	Cumulative since 2006	
	2011	2010
Transfers from the General Revenue Fund [(a)]	$ 500,000	$ 500,000
Accumulated investment income	100,857	79,792
Accumulated transfers to Ministries [(b)]	(109,881)	(91,131)
Net Assets, at cost	$ 490,976	$ 488,661
Net Assets, at fair value	$ 496,593	$ 498,336

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

(b) In accordance with section 6(1) of the Act, the Fund paid out $18.75 million on the behalf of the Minister of Health and Wellness during the year.

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

($ thousands)

	2011			2010		
	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income
Interest-bearing securities	$ 21,401	$ 164	$ 21,237	$ 25,952	$ 141	$ 25,811
Fund investment expenses	-	172	(172)	-	107	(107)
	$ 21,401	**$ 336**	**$ 21,065**	**$ 25,952**	**$ 248**	**$ 25,704**

Investment income is comprised of income earned on investments in pooled funds managed by AIMCo.

NOTE 7 INVESTMENT EXPENSES (in thousands)

Investment services are provided by AIMCo. It provides the day to day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	($ thousands)	
	2011	**2010**
Total Investment Expenses	**$ 336**	**$ 248**
Average fair value of investments	497,975	499,640
Percent of investments at average fair value	0.07%	0.05%

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the Fund's return on investment, net of expenses, compared to the Fund's policy benchmark.

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	2011	2010	2 years	3 years
Actual gain [b]	3.4%	3.8%	3.6%	4.3%
Policy benchmark gain [b]	3.2%	1.1%	2.1%	4.0%
Value added by investment manager	0.2%	2.7%	1.5%	0.3%

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

(b) Investment returns were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the period of the change.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

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**ALBERTA HERITAGE FOUNDATION
FOR MEDICAL RESEARCH ENDOWMENT FUND**

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Minister of Finance and Enterprise

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, 2011, and the statements of operations and net assets, 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, 2011, 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, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2011

	($ thousands) 2011	2010
Assets		
Portfolio investments (Note 3)	$1,263,899	$1,243,991
Receivable from sale of investments	-	5,000
	$ 1,263,899	**$ 1,248,991**
Liabilities		
Administration expense payable	$ 42	$ 93
Net Assets (Note 5)	1,263,857	1,248,898
	$ 1,263,899	**$ 1,248,991**

Statement of Operations and Net Assets

Year Ended March 31, 2011

	($ thousands) 2011		2010
	Budget	Actual	Actual
Investment income (Note 6)	$ 95,080	$ 98,043	$ 156,592
Investment expenses (Note 7)	(6,080)	(6,084)	(5,956)
Net investment income	89,000	91,959	150,636
Transfers to the Ministry of Advanced Education and Technology (Note 5b)	(77,000)	(77,000)	(76,000)
Change in net assets	**$ 12,000**	14,959	74,636
Net assets at beginning of year		1,248,898	1,174,262
Net assets at end of year		**$ 1,263,857**	**$ 1,248,898**

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2011

	($ thousands)	
	2011	**2010**
Operating transactions		
Net investment income	$ 91,959	$ 150,636
Non-cash items included in net investment income	(18,829)	(6,384)
	73,130	144,252
Decrease (increase) in receivables	5,000	(5,000)
Decrease in payables	(51)	(8)
Cash provided by operating transactions	78,079	139,244
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	351,270	902,863
Purchase of investments	(342,788)	(968,257)
Cash provided by (applied to) investing transactions	8,482	(65,394)
Transfers		
Transfers to the Ministry of Advanced Education and Technology	(77,000)	(76,000)
Cash applied to transfers	(77,000)	(76,000)
Increase (decrease) in cash	9,561	(2,150)
Cash at beginning of year	11,964	14,114
Cash at end of year	$ 21,525	$ 11,964
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 21,525	$ 11,964

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2011
($ thousands)

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 Advanced Education and Technology. 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) PORTFOLIO INVESTMENTS (IN THOUSANDS)

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

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. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

b) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. For certain investments such as private equities, private infrastructure, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net recognized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

c) FOREIGN CURRENCY

Foreign currency transactions 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. Exchange differences on transactions are included in the determination of investment income.

d) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

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.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private infrastructure, private real estate, absolute return strategies and timberland investments. The fair value of these investments is based on estimates where quoted market prices are not readily available. 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 values that would have been used had a ready market existed for these investments.

Changes in estimated fair value of investments are reported in the period in which new information is received.

The methods used by the Alberta Investment Management Corporation (AIMCo) to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

i) Public interest-bearing 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.

ii) Private interest-bearing debt and mortgages 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.

iii) The fair value of private equities and infrastructure investments is estimated by managers or general partners of private equity and 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.

iv) The estimated fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party evaluators.

vii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) 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.

vi) 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 3 PORTFOLIO INVESTMENTS (in thousands)

	2011			2010		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities [a]	$ 22,775	$ 22,781	1.7	$ 14,779	$ 14,768	1.2
Bonds and mortgages [b]	344,111	345,062	25.7	269,872	271,609	21.2
	366,886	367,843	27.4	284,651	286,377	22.4
Equities						
Canadian [c]	106,024	122,488	9.1	171,513	184,918	14.4
Global developed [d]	465,605	490,113	36.5	514,447	526,061	41.0
Emerging markets [e]	3,515	3,474	0.2	3,232	3,029	0.2
Private [f]	46,905	47,985	3.6	49,004	46,520	3.6
	622,049	664,060	49.4	738,196	760,528	59.2
Inflation sensitive and alternative investments						
Real estate [g]	121,195	151,684	11.3	100,722	120,982	9.4
Inflation sensitive real return bonds [h]	443	484	-	7,013	7,179	0.5
Infrastructure [i]	71,623	67,940	5.1	56,453	49,481	3.9
Absolute return strategy hedge funds [j]	59,929	69,108	5.1	50,774	52,346	4.1
Timberland [k]	15,145	15,993	1.2	6,182	6,150	0.5
Private debt and loan [l]	6,629	6,568	0.5	-	-	-
	274,964	311,777	23.2	221,144	236,138	18.4
Total investments [m]	**$ 1,263,899**	**$ 1,343,680**	**100.0**	**$ 1,243,991**	**$ 1,283,043**	**100.0**

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 investment policies approved by the Minister of Finance and Enterprise. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in 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 authority to independently purchase and sell securities in the pools and units of the pools in accordance with the approved long-term policy asset mix (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flow, of $21,525 (2010: $11,964) and short-term securities of $1,250 (2010: $2,815). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% (2010: 1.0% per annum).

b) Interest-bearing bonds and mortgages include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements and debt related derivatives. At March 31, 2011, interest bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 11% (2010: 3%); 1 to 5 years: 32% (2010: 33%); 5 to 10 years: 31% (2010: 36%); 10 to 20 years: 13% (2010: 13%); and over 20 years: 13% (2010: 15%).

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) Canadian and foreign private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The real rate of return bond portfolio is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

i) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

j) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

k) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

NOTE 3 PORTFOLIO INVESTMENTS (in thousands) CONTINUED

l) Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

m) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond 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. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts, totalled $18,042 thousand or 1.3% of total investments (March 31, 2010: $22,161 thousand or 1.7% of total investments).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at March 31, 2011 (in thousands):

	%			*($ thousands)*			
	Maturity			2011		2010	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives (c)	45%	15%	40%	$ 177,920	$ 949	$ 132,601	$ (30)
Equity replication derivatives (d)	100%	-	-	726,977	2,757	442,298	7,466
Foreign currency derivatives (e)	100%	-	-	626,687	3,845	299,674	3,853
Credit risk derivatives (f)	50%	15%	35%	169,927	(1,573)	185,426	(1,452)
Derivative related receivables, net					5,978		9,837
Deposits in futures contacts margin accounts					12,064		12,324
Net derivative related investment (included in Note 3)					$ 18,042		$ 22,161

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method for determining the fair value of derivative contracts is described in Note 2(e).

(c) Interest rate derivatives allow the Fund 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 and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified 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.

(e) 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.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 Statement of Investment Policies and Goals (SIP&G) approved by the Minister of Finance and Enterprise. 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 Finance and Enterprise 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 3). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges for subsequent fiscal years:

Interest-bearing securities	15 – 45 %
Equities	35 – 70 %
Inflation sensitive and alternative investments	15 – 40 %

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 Fund. 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. Interest bearing securities, reported in Note 3, primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Financial Information

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Foreign currency risk

A portion of the Fund's investments is denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the fair value of the Fund's investments by $63 million (2010: $60 million).

Interest rate risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $18 million (2010: $16 million).

Price risk

Price risk relates to the possibility that equity investments will change in fair 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 Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's equity investments by approximately $59 million (2010: $69 million).

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. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's future liabilities include annual transfer requirements to Advanced Education and Technology and payables for investment purchases.

NOTE 5 NET ASSETS (in thousands)

Net assets represent the difference between the carrying value of 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	
	2011	**2010**
Transfers from the Alberta Heritage Savings Trust Fund [(a)]	$ 300,000	$ 300,000
Transfers from the General Revenue Fund	500,000	500,000
Accumulated investment income	1,738,857	1,646,898
Accumulated transfers for medical research and innovation [(b)]	(1,275,000)	(1,198,000)
Net Assets, at cost	**$ 1,263,857**	**$ 1,248,898**
Net Assets, at fair value	**$ 1,343,638**	**$ 1,287,950**

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

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

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2011			2010		
	Gross Income	**Expenses**	**Net Income**	**Gross Income**	**Expenses**	**Net Income**
Foreign equities	$ 33,735	$ 1,348	$ 32,387	$ 79,921	$ (1,597)	$ 78,324
Canadian equities	26,468	176	26,292	25,258	(285)	24,973
Interest-bearing securities	18,385	259	18,126	17,161	(307)	16,854
Absolute return strategy hedge funds	3,018	686	2,332	11,210	(534)	10,676
Real estate	8,036	802	7,234	14,000	(670)	13,330
Infrastructure	3,803	671	3,132	9,048	(655)	8,393
Timberland	175	74	101	1,318	(47)	1,271
Private equities	3,796	1,392	2,404	(1,408)	(1,351)	(2,759)
Inflation sensitive real return bonds	591	3	588	84	-	84
Private debt and loan	36	31	5	-	-	-
Fund investment expenses	-	642	(642)	-	(510)	(510)
	$ 98,043	**$ 6,084**	**$ 91,959**	**$ 156,592**	**$ (5,956)**	**$ 150,636**

Investment income is comprised of income earned from investments in pooled funds managed by AIMCo.

Financial Information

NOTE 7 INVESTMENT EXPENSES (in thousands)

Investment services are provided by AIMCo. It provides the day to day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2011	2010
Investment Expenses	**$ 6,084**	**$ 5,956**
Average fair value of investments	1,313,362	1,218,589
Percent of investments at average fair value	0.46%	0.49%

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2011	2010	5 years	10 years
Actual gain [(b)]	10.7%	18.9%	2.9%	4.7%
Policy benchmark gain [(b)]	9.8%	18.0%	3.5%	4.7%
Value added (lost) by investment manager	0.9%	0.9%	-0.6%	0.0%

(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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the period of change.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

Financial Information

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

Year Ended March 31, 2011

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Financial Information

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Minister of Finance and Enterprise

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, 2011, and the statements of operations and net assets, 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, 2011, 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, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2011
(in millions)

		2011		2010
Assets				
Portfolio investments (Note 3)	$	14,455	$	13,820
Receivable from sale of investments and accrued income		19		25
	$	14,474	$	13,845
Liabilities				
Due to the General Revenue Fund	$	276	$	6
Administration expense payable		-		1
		276		7
Net Assets (Note 5)		14,198		13,838
	$	14,474	$	13,845

Financial Information

Statement of Operations and Net Assets

Year Ended March 31, 2011
(in millions)

	2011				2010	
	Budget		Actual		Actual	
Investment income (Note 6)	$	1,050	$	1,152	$	2,077
Investment expenses (Note 7)		(74)		(72)		(71)
Net income		976		1,080		2,006
Transfers to the General Revenue Fund (Note 5b)		(685)		(720)		(2,006)
Net income retained in the Fund (Note 5b)	$	291		360		-
Net Assets at beginning of year				13,838		13,838
Net Assets at end of year			$	14,198	$	13,838

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2011

(in millions)

	2011	2010
Operating transactions		
Net income	$ 1,080	$ 2,006
Non-cash items included in net income	(136)	(149)
	944	1,857
Decrease (increase) in accounts receivable	6	(5)
Decrease in accounts payable	(1)	-
Cash provided by operating transactions	949	1,852
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	2,656	10,833
Purchase of investments	(3,133)	(10,702)
Cash (applied to) provided by investing transactions	(477)	131
Transfers		
Transfers to the General Revenue Fund	(720)	(2,006)
Increase in amounts due to the General Revenue Fund	270	6
Cash applied to transfers	(450)	(2,000)
Increase (decrease) in cash	22	(17)
Cash at beginning of year	83	100
Cash at end of year	$ 105	$ 83
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 105	$ 83

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2011
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust 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

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) PORTFOLIO INVESTMENTS

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in 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 specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

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. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

b) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value. For certain investments such as private equities, private infrastructure, private real estate, absolute return strategies and timberland investments, the actual income and

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net recognized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same year as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

c) FOREIGN CURRENCY

Foreign currency transactions 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. Exchange differences on transactions are included in the determination of investment income.

d) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

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.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private infrastructure, private debt and loans, private real estate, absolute return strategy 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 values that would have been used had a ready market existed for these investments.

Changes in estimated fair value of investments are reported in the period in which new information is received.

The methods used by the Alberta Investment Management Corporation (AIMCo) to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

i) Public interest-bearing 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.

ii) Mortgages and private interest-bearing debt 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.

iii) The fair value of private equities and infrastructure investments is estimated by managers or general partners of private equity and 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.

iv) The estimated fair value of 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.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts, warrants and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are valued based on quoted market prices.

v) 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.

vi) 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 3 PORTFOLIO INVESTMENTS (in millions)

	2011			2010		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities [(a)]	$ 119	$ 119	0.7	$ 123	$ 123	0.8
Bonds and mortgages [(b)]	3,948	3,954	25.6	3,546	3,550	24.7
	4,067	4,073	26.3	3,669	3,673	25.5
Equities						
Canadian [(c)]	1,214	1,414	9.2	1,843	2,012	14.0
Global developed [(d)]	5,141	5,412	35.0	4,815	4,917	34.2
Emerging markets [(e)]	46	45	0.3	42	39	0.3
Private [(f)]	797	845	5.5	667	677	4.7
	7,198	7,716	50.0	7,367	7,645	53.2
Inflation sensitive and alternative investments						
Real estate [(g)]	1,544	1,987	12.9	1,302	1,614	11.2
Inflation sensitive real return bonds [(h)]	4	5	-	80	82	0.6
Infrastructure [(i)]	641	587	3.8	580	502	3.5
Absolute return strategy hedge funds [(j)]	720	788	5.1	738	783	5.4
Timberland [(k)]	205	216	1.4	84	83	0.6
Private debt and loan [(l)]	76	75	0.5	-	-	-
	3,190	3,658	23.7	2,784	3,064	21.3
Total Investments [(m)]	**$ 14,455**	**$ 15,447**	**100.0**	**$ 13,820**	**$ 14,382**	**100.0**

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 investment policies approved by the Minister of Finance and Enterprise. The majority of the Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in 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 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).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, of $105 (2010: $83) and short-term securities of $14 (2010: $40). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

b) Interest-bearing bonds and mortgages include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At March 31, 2011, interest bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 11% (2010: 3%); 1 to 5 years:

32% (2010: 33%); 5 to 10 years: 31% (2010: 36%); 10 to 20 years: 13% (2010: 13%); and over 20 years: 13% (2010: 15%).

Included in bonds and mortgages are two policy investments held in the Fund prior to its restructuring in 1996-97. These policy investments include an 11% participating first mortgage bond with principal and deferred interest totaling $169 (2010: $173) due July 31, 2015 and a loan with principal of $53 due July 2046. At March 31, 2011, these policy investments have carrying values, excluding accrued interest, of $145 and $3 respectively (2010: $129.5 and $3). The increase in carrying value of the first mortgage bond resulted from a reduction in the provision for decline in estimated realizable value.

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) Canadian and foreign private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The real rate of return bond portfolio is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

i) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

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NOTE 3 PORTFOLIO INVESTMENTS (in millions) CONTINUED

j) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

k) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

l) Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investments grade, i.e. BB and lower. These investments may include senior seured loans, leverages loans, mezzanine debt and convertible debt.

m) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond 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. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts, totalled $197 million or 1.3% of total investments (March 31, 2010: $223 million or 1.6% of total investments).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of the investments (Note 3) at March 31, 2011 (in millions):

	Maturity			2011		2010	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives [c]	42%	27%	31%	$ 1,947	$ 10	$ 1,511	$ 6
Equity replication derivatives [d]	100%	-	-	8,024	30	4,326	71
Foreign currency derivatives [e]	100%	-	-	6,889	38	3,232	50
Credit risk derivatives [f]	50%	15%	35%	1,811	(17)	2,297	(18)
Derivative related receivables, net					61		109
Deposits in futures contracts margin accounts					136		114
Net derivative related investments (included in Note 3)					$ 197		$ 223

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method for determining the fair value of derivative contracts is described in Note 2(e).

(c) Interest rate derivatives allow the Fund 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 and futures contracts and options.

[d] Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified 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.

[e] 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.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 Statement of Investment Policies and Goals (SIP&G) approved by the Minister of Finance and Enterprise. 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 Finance and Enterprise 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 3). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

Interest-bearing securities	15 – 45	%
Equities	35 – 70	%
Inflation sensitive and alternative investments	15 – 40	%

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 Fund. 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. Interest bearing securities, reported in Note 3, primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Foreign currency risk

A portion of the Fund's investments is denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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. 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the fair value of the Fund's investments by $705 million (2010: $586 million).

Interest rate risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $211 million (2010: $213 million).

Price risk

Price risk relates to the possibility that equity investments will change in fair 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 Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's equity investments by approximately $670 million (2010: $725 million).

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. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables for investment purchases.

NOTE 5 NET ASSETS (in millions)

Net assets represent the difference between the carrying value of 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	
	2011	2010
Accumulated net income	$ 31,306	$ 30,226
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	(31,511)	(30,431)
Amount Retained for Inflation-proofing	1,922	1,562
	(29,589)	(28,869)
Capital Expenditures (1976-1995) [c]	(3,486)	(3,486)
	(33,075)	(32,355)
Net Assets, at cost	**$ 14,198**	**$ 13,838**
Net Assets, at fair value	**$ 15,190**	**$ 14,400**

(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) In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act (the Act), the Fund transferred $720 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $1,080 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $360 million, shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. 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.

Financial Information

NOTE 6 NET INVESTMENT INCOME (in millions)

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

	2011			2010		
	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income
Foreign equities	$ 311	$ 14	$ 297	$ 1,059	$ 16	$ 1,043
Canadian equities	288	2	286	369	3	366
Interest-bearing securities	259	3	256	278	4	274
Absolute return strategy hedge funds	98	8	90	158	8	150
Real estate	106	10	96	118	8	110
Infrastructure	29	6	23	92	6	86
Timberland	2	1	1	18	1	17
Private equities	52	21	31	(16)	19	(35)
Inflation sensitive real return bonds	7	-	7	1	-	1
Fund investment expenses	-	7	(7)	-	6	(6)
	$ 1,152	**$ 72**	**$ 1,080**	**$ 2,077**	**$ 71**	**$ 2,006**

Investment income is comprised of income earned from investments in pooled funds managed by AIMCo.

NOTE 7 INVESTMENT EXPENSES (in millions)

Investment services are provided by AIMCo. It provides the day-to-day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2011	2010
Total Investment Expenses	**$ 72**	**$ 71**
Average fair value of investments	14,915	14,172
Percent of investments at average fair value	0.48%	0.50%

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

Time-weighted rates of return, at fair value [a]	2011	2010	**Average Annualized Return** 5 years	10 years
Actual gain [b]	10.4%	17.8%	3.5%	5.3%
Benchmark gain [b]	9.4%	16.3%	3.8%	5.1%
Value added (lost) by investment manager [c]	1.0%	1.5%	-0.3%	0.2%

(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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the year of the change.

(c) In the business plan, the Minister of Finance and Enterprise expects that the investments held by the Fund will return approximately 100 basis points, or 1%, above the policy benchmark over one year.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

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ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Minister of Finance and Enterprise

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, 2011, and the statements of operations and net assets, 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, 2011, 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, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2011

	($ thousands) 2011	2010
Assets		
Portfolio investments (Note 3)	$ 720,766	$ 689,692
Receivable from sale of investments	-	1,000
Contributions receivable	-	1,677
	$ 720,766	**$ 692,369**
Liabilities		
Administration expense payable	$ 26	$ 66
Net Assets (Note 5)	720,740	692,303
	$ 720,766	**$ 692,369**

Statement of Operations and Net Assets

Year Ended March 31, 2011

	($ thousands) 2011 Budget	2011 Actual	2010 Actual
Investment income (Note 6)	$ 52,601	$ 66,122	$ 83,804
Investment expenses (Note 7)	(3,320)	(2,699)	(2,616)
Net investment income	49,281	63,423	81,188
Transfers from Alberta Government departments	200	707	327
Other contributions	240	1,087	1,965
Transfers for Scholarships to the Ministries of:			
Advanced Education and Technology	(36,273)	(36,720)	(35,836)
Culture and Community Spirit	-	(60)	(59)
	(36,273)	(36,780)	(35,895)
Change in Net Assets	**$ 13,448**	28,437	47,585
Net Assets at beginning of year		692,303	644,718
Net Assets at end of year		**$ 720,740**	**$ 692,303**

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2011

	($ thousands) 2011	2010
Operating transactions		
Net investment income	$ 63,423	$ 81,188
Non-cash items included in net investment income	(16,422)	5,216
	47,001	86,404
Decrease (increase) in receivables	2,677	(1,870)
(Decrease) increase in payables	(40)	9
Cash provided by operating transactions	49,638	84,543
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	221,770	529,221
Purchase of investments	(234,221)	(578,082)
Cash applied to investing transactions	(12,451)	(48,861)
Transfers		
Transfers from Alberta Government departments	707	327
Other contributions	1,087	1,965
Transfers for Scholarships	(36,780)	(35,895)
Cash applied to transfers	(34,986)	(33,603)
Increase in cash	2,201	2,079
Cash at beginning of year	10,783	8,704
Cash at end of year	$ 12,984	$ 10,783
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 12,984	$ 10,783

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2011

($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) PORTFOLIO INVESTMENTS

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

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. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

b) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. For certain investments such as private equities, private infrastructure, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net recognized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in the income immediately.

c) FOREIGN CURRENCY

Foreign currency transactions 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. Exchange differences on transactions are included in the determination of investment income.

d) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

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.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private infrastructure, private debt and loans, private real estate, absolute return strategy hedge funds, timberland investments and other investments where no readily available market exits. The fair value of these investments is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, nor amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Changes in estimated fair value of investments are reported in the period in which new information is received.

The methods used by the Alberta Investment Management Corporation (AIMCo) to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

i) Public interest-bearing 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.

ii) Mortgages and private interest-bearing debt 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.

iii) The fair value of private equities and infrastructure investments is estimated by managers or general partners of private equity and 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.

iv) The estimated fair value of 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.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party evaluators.

vii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) 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.

vi) 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.

Financial Information

NOTE 3 PORTFOLIO INVESTMENTS (in thousands)

	2011			2010		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities [(a)]	$ 13,675	$ 13,678	1.8	$ 12,301	$ 12,294	1.7
Bonds and mortgages [(b)]	202,571	203,004	26.9	187,788	188,383	26.5
	216,246	216,682	28.7	200,089	200,677	28.2
Equities						
Canadian [(c)]	60,307	70,349	9.3	150,780	161,633	22.8
Global developed [(d)]	299,954	310,583	41.1	236,071	241,051	34.0
Emerging markets [(e)]	2,096	1,914	0.3	1,941	1,669	0.2
Private [(f)]	19,098	19,798	2.6	11,327	11,297	1.6
	381,455	402,644	53.3	400,119	415,650	58.6
Inflation sensitive and alternative investments						
Real estate [(g)]	70,599	82,591	11.0	59,302	65,622	9.2
Inflation sensitive real return bonds [(h)]	222	242	-	3,506	3,589	0.5
Infrastructure [(i)]	30,023	29,680	3.9	18,951	16,731	2.4
Absolute return strategy hedge funds [(j)]	18,857	19,746	2.6	6,860	6,896	1.0
Timberland [(k)]	2,122	2,241	0.3	865	861	0.1
Private debt and loan [(l)]	1,242	1,230	0.2	-	-	-
	123,065	135,730	18.0	89,484	93,699	13.2
Total investments [(m)]	**$ 720,766**	**$ 755,056**	**100.0**	**$ 689,692**	**$ 710,026**	**100.0**

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 investment policies approved by the Minister of Finance and Enterprise. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in 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 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).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, of $12,984 (2010: $10,783) and short-term securities of $691 (2010: $1,518). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% (2010: 1.0% per annum).

b) Interest-bearing bonds and mortgages include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements and debt related derivatives. At March 31, 2011, interest bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 11% (2010: 3%); 1 to 5 years: 32% (2010: 33%); 5 to 10 years: 31% (2010: 36%); 10 to 20 years: 13% (2010: 13%); and over 20 years: 13% (2010: 15%).

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) Canadian and foreign private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The real rate of return bond portfolio is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

i) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

j) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

k) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

Financial Information

NOTE 3 PORTFOLIO INVESTMENTS (in thousands) CONTINUED

l) Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

m) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond 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. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts, totalled $9,426 thousand or 1.2% of total investments (March 31, 2010: $9,989 thousand or 1.6% of total investments).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at March 31, 2011 (in thousands):

	Maturity			2011		2010	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives [c]	45%	15%	40%	$ 107,893	$ 478	$ 81,070	$ 287
Equity replication derivatives [d]	100%	-	-	470,564	1,537	233,744	4,010
Foreign currency derivatives [e]	100%	-	-	359,413	1,113	114,822	921
Credit risk derivatives [f]	50%	15%	35%	100,860	(933)	133,542	(1,043)
Derivative related receivables, net					2,195		4,175
Deposits in futures contracts margin accounts					7,231		5,814
Net derivative related investments (included in Note 3)					$ 9,426		$ 9,989

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method for determining the fair value of derivative contracts is described in Note 2(e).

(c) Interest rate derivatives allow the Fund 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 and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified 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.

(e) 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.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 Statement of Investment Policies and Goals (SIP&G) approved by the Minister of Finance and Enterprise. 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 Finance and Enterprise 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 3). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges for subsequent fiscal years:

Interest-bearing securities 15-45%
Equities 35-70%
Inflation sensitive and alternatives. 15-40%

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 Fund. 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. Interest bearing securities, reported in Note 3, primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign currency risk

A portion of the Fund's investments is denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the fair value of the Fund's investments by $38 million (2010: $27 million).

Financial Information

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Interest rate risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $11 million (2010: $11 million).

Price risk

Price risk relates to the possibility that equity investments will change in fair 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 Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's equity investments by approximately $35 million (2010: $38 million).

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. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include annual scholarshipsand payables for investment purchases.

NOTE 5 NET ASSETS (in thousands)

Net assets represents the difference between the carrying value of 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	
	2011	**2010**
Transfers from the Aberta Heritage Savings Trust Fund [a]	$ 100,000	$ 100,000
Transfers from the General Revenue Fund [b]	497,000	497,000
Other contributions	19,891	18,097
Accumulated investment income	591,519	528,096
Accumulated scholarship payments [a]	(487,670)	(450,890)
Net Assets, at cost	**$ 720,740**	**$ 692,303**
Net Assets, at fair value	**$ 755,030**	**$ 712,637**

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

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

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2011			2010		
	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income
Foreign equities	$ 15,573	$ 608	$ 14,965	$ 38,009	$ 740	$ 37,269
Canadian equities	28,458	158	28,300	21,861	245	21,616
Interest-bearing securities	12,450	172	12,278	11,900	182	11,718
Absolute return strategy hedge funds	2,164	172	1,992	2,378	124	2,254
Real estate	4,265	437	3,828	6,815	362	6,453
Infrastructure	1,882	280	1,602	2,803	255	2,548
Timberland	25	10	15	184	7	177
Private equities	1,003	462	541	(188)	402	(590)
Inflation sensitive real return bonds	295	1	294	42	-	42
Private debt and loan	7	6	1	-	-	-
Fund investment expenses	-	393	(393)	-	299	(299)
	$ 66,122	**$ 2,699**	**$ 63,423**	**$ 83,804**	**$ 2,616**	**$ 81,188**

Investment income is comprised of income earned from investments in pooled funds managed by AIMCo.

NOTE 7 INVESTMENT EXPENSES (in thousands)

Investment services are provided by AIMCo. It provides the day to day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2011	2010
Total Investment Expenses	**$ 2,699**	**$ 2,616**
Average fair value of investments	732,541	664,208
Percent of investments at average fair value	0.37%	0.39%

Financial Information

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

Time-weighted rates of return, at fair value [a]	2011	2010	Average Annualized Return 5 years	10 years
Actual gain [b]	11.2%	21.0%	3.5%	5.1%
Policy benchmark gain [b]	10.6%	19.1%	4.0%	5.1%
Value added (lost) by investment manager	0.6%	1.9%	-0.5%	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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the period of the change.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Minister of Finance and Enterprise

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, 2011, and the statements of operations and net assets, 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, 2011, 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, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2011

	($ thousands) 2011	2010
Assets		
Portfolio investments (Note 3)	$ 726,838	$ 706,450
Receivable from sale of investments	-	1,500
	$ 726,838	$ 707,950
Liabilities		
Administration expense payable	$ 26	$ 64
Net Assets (Note 5)	726,812	707,886
	$ 726,838	$ 707,950

Statement of Operations and Net Assets

Year Ended March 31, 2011

	($ thousands) 2011		2010
	Budget	Actual	Actual
Investment income (Note 6)	$ 52,477	$ 56,906	$ 85,594
Investment expense (Note 7)	(3,944)	(3,480)	(3,370)
Net investment income	48,533	53,426	82,224
Transfers to the Ministry of Advanced Education and Technology (Note 5b)	(41,500)	(34,500)	(31,900)
Change in net assets	**$ 7,033**	18,926	50,324
Net assets at beginning of year		707,886	657,562
Net assets at end of year		**$ 726,812**	**$ 707,886**

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2011

	($ thousands)	
	2011	**2010**
Operating transactions		
Net investment income	$ 53,426	$ 82,224
Non-cash items included in net investment income	(8,863)	6,279
	44,563	88,503
Decrease (increase) in receivables	1,500	(1,500)
Increase (decrease) in payables	(38)	6
Cash provided by operating transactions	46,025	87,009
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	183,419	493,446
Purchase of investments	(190,493)	(545,597)
Cash applied to investing transactions	(7,074)	(52,151)
Transfers		
Transfers to the Ministry of Advanced Education and Technology	(34,500)	(31,900)
Cash applied to transfers	(34,500)	(31,900)
Increase in cash	4,451	2,958
Cash at beginning of year	7,235	4,277
Cash at end of year	$ 11,686	$ 7,235
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 11,686	$ 7,235

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2011
($ 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 Advanced Education and Technology. 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) PORTFOLIO INVESTMENTS

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

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. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

b) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. For certain investments such as private equities, private infrastructure, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net recognized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

c) FOREIGN CURRENCY

Foreign currency transactions 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. Exchange differences on transactions are included in the determination of investment income.

d) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

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.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private infrastructure, private debt and loans, private real estate, absolute return strategy hedge funds, timberland investments and other investments where no readily available market exists. The fair value of these investments is based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, nor amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Changes in estimated fair value of investments are reported in the period in which new information is received.

The methods used by the Alberta Investment Management Corporation (AIMCo) to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

i) Public interest-bearing 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.

ii) Private interest-bearing debt and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

iii) The fair value of private equities and infrastructure investments is estimated by managers or general partners of private equity and 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 multiple analyses.

iv) The estimated fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows.

v) The fair value of Absolute Return Strategy investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party evaluators.

vii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are valued based on quoted market prices.

v) 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.

vi) 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.

Financial Information

NOTE 3 PORTFOLIO INVESTMENTS

	2011			2010		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities [(a)]	$ 12,393	$ 12,396	1.6	$ 8,883	$ 8,877	1.2
Bonds and mortgages [(b)]	197,645	198,342	25.8	159,667	160,781	22.1
	210,038	210,738	27.4	168,550	169,658	23.3
Equities						
Canadian [(c)]	60,695	70,081	9.1	92,432	99,675	13.7
Global developed [(d)]	269,819	284,080	37.0	290,672	297,241	40.9
Emerging markets [(e)]	2,032	1,968	0.3	1,872	1,715	0.3
Private [(f)]	24,911	25,698	3.3	27,017	25,645	3.5
	357,457	381,827	49.7	411,993	424,276	58.4
Inflation sensitive and alternative investments						
Real estate [(g)]	70,272	85,971	11.2	58,612	68,494	9.4
Inflation sensitive real return bonds [(h)]	222	242	-	3,506	3,589	0.5
Infrastructure [(i)]	39,576	37,489	4.9	31,271	27,353	3.8
Absolute return strategy hedge funds [(j)]	36,437	39,041	5.1	28,801	29,916	4.1
Timberland [(k)]	9,103	9,613	1.2	3,717	3,697	0.5
Private debt and loan [(l)]	3,733	3,699	0.5	-	-	-
	159,343	176,055	22.9	125,907	133,049	18.3
Total investments [(m)]	**$726,838**	**$768,620**	**100.0**	**$706,450**	**$726,983**	**100.0**

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 investment policies approved by the Minister of Finance and Enterprise. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in 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 authority to independently purchase and sell securities in the pools and units of the pools in accordance with the approved long-term policy asset mix (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flow, of $11,686 (2010: $7,235) and short-term securities of $707 (2010: $1,647). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

b) Interest-bearing bonds and mortgages include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements and debt related derivatives. At March 31, 2011, interest bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 11% (2010: 3%); 1 to 5 years: 32% (2010: 33%); 5 to 10 years: 31% (2010: 36%); 10 to 20 years: 13% (2010: 13); and over 20 years; 13% (2010: 15%).

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) Canadian and foreign private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The real rate of return bond portfolio is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

i) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

j) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

k) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

Financial Information

NOTE 3 PORTFOLIO INVESTMENTS CONTINUED

l) Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investments grade, i.e. BB and lower. These investments may include senior seured loans, leverages loans, mezzanine debt and convertible debt.

m) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond 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. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts, totalled $10,005 thousand or 1.3% of total investments (March 31, 2010: $12,490 thousand or 1.7% of total investments).

The following is a summary of the Fund's proportionate share of the notional amount and fair value of each class of derivative financial instrument included in the fair value of the investments (Note 3) at March 31, 2011 (in thousands):

	Maturity			2011		2010	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives (c)	45%	15%	40%	$ 102,856	$ 540	$ 75,908	$ 70
Equity replication derivatives (d)	100%	-	-	419,855	1,556	248,210	4,162
Foreign currency derivatives (e)	100%	-	-	361,194	1,944	169,829	2,168
Credit risk derivatives (f)	50%	15%	35%	98,226	(909)	111,165	(870)
Derivative related receivables, net					3,131		5,530
Deposits in futures contracts margin accounts					6,874		6,960
Net derivative related investments (included in Note 3)					$ 10,005		$ 12,490

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method for determining the fair value of derivative contracts is described in Note 2(e).

(c) Interest rate derivatives allow the Fund 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 and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified 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.

(e) 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.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 Statement of Investment Policies and Goals (SIP&G) approved by the Minister of Finance and Enterprise. 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 Finance and Enterprise 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 3). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges for subsequent fiscal years:

Interest-bearing securities	15 – 45	%
Equities	35 – 70	%
Inflation sensitive and alternative investments	15 – 40	%

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 Fund. 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 are directly or indirectly impacted by credit risk to some degree. Interest bearing securities, reported in Note 3, primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Foreign currency risk

A portion of the Fund's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the fair value of the Fund's investments by $36 million (2010: $34 million).

Interest rate risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $11 million (2010: $10 million).

Price risk

Price risk relates to the possibility that equity investments will change in fair 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 Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's equity investments by approximately $34 million (2010: $39 million).

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. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's future liabilities include transfers to Advanced Education and Technology and payables for investment purchases.

NOTE 5 NET ASSETS (in thousands)

Net assets represents the difference between the carrying value of 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	
	2011	2010
Transfers from the General Revenue Fund [a]	$ 721,430	$ 721,430
Accumulated investment income	206,868	153,442
Accumulated transfers for research and innovation [b]	(201,486)	(166,986)
Net Assets, at cost	**$ 726,812**	**$ 707,886**
Net Assets, at fair value	**$ 768,594**	**$ 728,419**

(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 and Enterprise.

(b) In accordance with section 12 of the *Alberta Research and Innovation Act* (the Act), the Minister of Finance and Enterprise must, at the request of the Minister of Advanced Education and Technology (AET), pay from the Endowment Fund to AET, money that, in the opinion of the Alberta Research and Innovation Authority is required by AET for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to AET. Payments to AET may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceeding 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.

	($ thousands)
	2011
Accumulated unused spending limit at March 31, 2010	$ 27,191
4.5% of average market value on March 31, 2008-10	33,165
Spending limit for year ended March 31, 2011	60,356
Transfers to AET during 2010-11	(34,500)
Accumulated unused spending limit at March 31, 2011	25,856
4.5% of average market value on March 31, 2009-11	32,130
Spending limit for year ended March 31, 2012	$ 57,986

Financial Information

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2011			2010		
	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income
Foreign equities	$ 19,118	$ 745	$ 18,373	$ 44,473	$ 894	$ 43,579
Canadian equities	13,607	94	13,513	10,944	149	10,795
Interest-bearing securities	10,828	152	10,676	10,473	177	10,296
Absolute return strategy hedge funds	4,515	389	4,126	6,388	299	6,089
Real estate	4,510	452	4,058	8,329	377	7,952
Infrastructure	2,088	371	1,717	4,963	363	4,600
Timberland	105	45	60	793	28	765
Private equities	1,820	783	1,037	(811)	772	(1,583)
Inflation sensitive real return bonds	295	1	294	42	-	42
Private debt and loans	20	18	2	-	-	-
Fund investment expenses	-	430	(430)	-	311	(311)
	$ 56,906	**$ 3,480**	**$ 53,426**	**$ 85,594**	**$ 3,370**	**$ 82,224**

Investment income is comprised of income earned from investments in pooled funds managed by AIMCo.

NOTE 7 INVESTMENT EXPENSES (in thousands)

Investment services are provided by AIMCo. It provides the day to day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2011	2010
Total Investment Expenses	**$ 3,480**	**$ 3,370**
Average fair value of investments	747,802	686,030
Percent of investments at average fair value	0.47%	0.49%

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

Time-weighted rates of return, at fair value [(a)]	2011	2010	Average Annualized Return 5 years	Average Annualized Return 10 years
Actual gain [(b)]	10.6%	18.3%	2.9%	4.8%
Policy benchmark gain [(b)]	9.7%	17.6%	3.5%	4.8%
Value added (lost) by investment manager	0.9%	0.7%	-0.6%	0.0%

(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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the period of the change.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

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ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the Minister of Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Risk Management Fund, which comprise the balance sheet as at March 31, 2011, and the statement of operations 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 in my audit 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, 2011 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, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Balance Sheet

As at March 31, 2011

	($ thousands) 2011	2010
Assets		
Cash and cash equivalents (Note 3)	$ 39,711	$ 37,609
Receivable from Province of Alberta	141	260
Accrued recoveries (Note 4)	2,503	583
Computer Software	201	-
	$ 42,556	$ 38,452
Liabilities and net liabilities		
Liabilities		
Accounts payable (Note 5)	$ 781	$ 377
Liability for accrued claims (Note 6)	33,446	29,413
	34,227	29,790
Net assets	8,329	8,662
	$ 42,556	$ 38,452

The accompanying notes are part of these financial statements.

Statement of Operations

Years Ended March 31, 2011

	2011 Budget	2011 Actual	2010 Actual
	($ thousands)		
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 13,449	$ 13,804	$ 13,311
Other entities	108	572	620
Subrogation and salvage	300	289	285
Recoveries	-	1,942	-
Interest	902	472	359
	14,759	17,079	14,575
Expenses			
Insurance claims	10,745	12,301	4,199
Insurance premiums to insurers	2,632	2,754	2,500
Administration	1,563	1,542	1,445
Other services	694	815	774
Computer Software	50	-	-
	15,684	17,412	8,918
Net (expense) revenue	$ (925)	(333)	5,657
Net assets at beginning of year		8,662	3,005
Net assets at end of year		$ 8,329	$ 8,662

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2011

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 6(b)).

   Liability for accrued claims, recorded as $33.4 million (2010: $29.4 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 $40.1 million as at March 31, 2011 or $6.7 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 6(b)).

Financial Information

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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.

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

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

NOTE 3 CASH AND CASH EQUIVALENTS

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, 2011, securities held by the Fund have time-weighted return of 1.1% per annum (2010: 0.9% per annum).

NOTE 4 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 5 ACCOUNTS PAYABLE

	($ thousands) 2011	2010
Payable to Department of Finance and Enterprise	$ 423	$ 362
Other	358	15
	$ 781	$ 377

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

	($ thousands) 2011	2010
Outstanding claims case reserves [(a)]	$ 19,395	$ 16,668
Incurred but not reported losses [(b)]	14,051	12,745
	$ 33,446	$ 29,413

a) OUTSTANDING CLAIMS CASE RESERVES

Liability for outstanding claims case reserves represents management's best estimates of outstanding losses and related claims expenses which have been reported but not yet closed, net of participant deductibles and recoveries, if any. The amount reflects management's best estimate of the ultimate cost of settlement after consultation with legal counsel if required.

b) INCURRED BUT NOT REPORTED (IBNR) LOSSES

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but not yet reported. In addition to a provision for claims that have occurred but are not yet reported, the amount includes a provision for development of outstanding case reserves, a provision for reopened claims, and a provision for claims that have been reported but are not yet recorded in the books.

An actuarial review of the Fund's liability for IBNR losses was carried out as at March 31, 2011 by KPMG LLP, taking into account the historical claims experience up to that date.

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:

	2011	2010
Trend rate		
General liability	5.0%	5.0%
Automobile liability	3.0%	5.0%
Property	0.0%	0.0%
Auto physical damage	7.5%	11.0%
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)*	$ 1.11	$ 1.15
Automobile liability: *Loss per vehicle*	$ 95	$ 105
Property: *Loss per $million property values*	$ 265	$ 265
Auto physical damage: *Loss per vehicle*	$ 180	$ 190
Crime: *Loss per class A and B employee*	$ 40	$ 45

Liability for IBNR losses represents the difference between the actuary's estimated ultimate incurred loss and the amount of incurred loss reported on the effective date of review, adjusted for the portion of any individual large claims ceded to third party insurers.

The Fund's future experience will inevitably differ, perhaps significantly, from the actuary's estimate due to the unpredictable nature of new claim types, the random occurrence of large losses and the outcome of future contingent events. Any differences between the actuary's estimate and future experience will emerge as gains or losses in future reviews and will affect the financial position of the Fund.

NOTE 6 LIABILITY FOR ACCRUED CLAIMS CONTINUED

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2011:

Sensitivity Tests	**Increase in Net Liabilities** *($ million)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 6.7
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 20%, depending on coverage type.	$ 6.3
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ 6.4

NOTE 7 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2011 are as follows:

	($ thousands)
2011-12	$ 415
2012-13	111
	$ 526

NOTE 8 CONTINGENT LIABILITIES

At March 31, 2011 the Province was named as defendant in various legal actions relating to insurance claims. The resulting loss, if any from these claims and other potential claims cannot be determined.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance and Enterprise.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Minister of Finance and Enterprise

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 balance sheet as at March 31, 2011, 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 generally accepted accounting principles, 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 in my audit 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, 2011 and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Balance Sheet

As at March 31, 2011

		($ thousands) 2011	2010
Assets			
Investments (Note 3)	82,707	$ 82,707	$ 70,071
Receivable from the Province of Alberta	141	141	164
		82,848	70,235
Liabilities			
Liability for investment purchases	-	-	-
		82,848	70,235
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 6)	82,848	82,848	70,235
Net Assets		$ -	$ -

Statement of Changes in Net Assets

Year Ended March 31, 2011

	($ thousands) 2011	2010
Net investment income (Note 5)		
Investment income	$ 6,910	$ 11,306
Investment expenses	(121)	(138)
	6,789	11,168
Contributions	5,824	4,352
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(12,613)	(15,520)
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, 2011

(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

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

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles.

Reserve Fund investments are held in pooled investment funds administered by Alberta Investment Management Corporation (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.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded in the financial statements at fair value.

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.

For private investments, absolute return strategies, timberland and real estate investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may 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. A change in the estimated fair value of an investment is recorded in the period in which the new information is received.

The methods used by AIMCo to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

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

ii) Private fixed income securities and mortgages 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.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of 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 multiple earnings analyses.

iv) The fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party valuators.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 3) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency and interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

iv) Credit default swaps are valued based on discount cash flows using current market yields and calculated default probabilities.

v) 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.

f) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta.

As at March 31, 2011, current service contributions rates are 31.76% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the *maximum pensionable salary limit.* The rate was determined by the Unregistered Plan's actuary and approved by the Minister of Finance and Enterprise.

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

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.

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 financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Fund's private investments and real estate. Uncertainty arises because the estimated fair values of the Fund's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Fund's private investments 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 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

	($ thousands)			
	2011		2010	
	Fair Value		Fair Value	
		%		%
Interest bearing securities				
Deposits and short-term securities [a]	$ 8,795	10.6	$ 6,231	8.9
Bonds and mortgages [b]	28,599	34.6	24,587	35.1
	37,394	45.2	30,818	44.0
Public equities				
Canadian equities [c]	11,688	14.1	10,832	15.5
Global equities [d]	29,661	35.9	24,938	35.6
	41,349	50.0	35,770	51.1
Inflation sensitive				
Real estate [e]	2,349	2.8	1,920	2.7
Infrastructure investments [f]	1,160	0.6	1,151	1.6
Real return bonds [g]	455	1.4	412	0.6
	3,964	4.8	3,483	4.9
Total investments [h][i]	$ 82,707	100.0	$ 70,071	100.0

The Reserve 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 investment policies approved by the Reserve Fund's board. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in the pooled fund. 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. AIMCo is delegated authority to independently purchase and sell securities in the pools and units of the pools within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $8,723 (2010: $6,067) and short-term securities of $72 (2010: $164). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

b) The bond and mortgage portfolio includes policy allocations to universe bonds totalling $25,231 (2010: $21,068) and mortgages totalling $3,368 (2010: $3,519). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At March 31, 2011, interest-bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 12% (2010: 3%); 1 to 5 years: 30% (2010: 33%); 5 to 10 years: 30% (2010: 36%); 10 to 20 years: 14% (2010: 13%); and over 20 years: 14% (2010: 15%).

NOTE 3 INVESTMENTS CONTINUED

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), and Canada. The global developed market is used to describe countries whose economies and capital markets are well established and mature. Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

f) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

g) Infrastructure includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

h) The following table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Fund's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, private equities, timberland and private income and debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

Investment:	**Level One**	**Level Two**	**Level Three ***	**Total**
Interest bearing securities	$ -	$ 33,954	$ 3,440	$ 37,394
Public equities	27,958	11,525	1,866	41,349
Inflation sensitive	-	455	3,509	3,964
2011 - Total amount	**$ 27,958**	**$ 45,934**	**$ 8,815**	**$ 82,707**
- Percent	**32%**	**53%**	**15%**	**100%**
2010 - Total amount	$ 22,998	$ 39,090	$ 7,983	$ 70,071
- Percent	31%	55%	14%	100%
Increase during the year	**$ 4,960**	**$ 6,844**	**$ 832**	**$ 12,636**

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)
	2011
Balance, beginning of year	$ 7,983
Investment income	788
Purchases of Level 3 pooled fund units	1,420
Sale of Level 3 pooled fund units	(1,376)
Balance, end of year	**$ 8,815**

i) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $712 or 0.8% of total investments (2010: $982 or 1.4% of total investments).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at March 31, 2011:

NOTE 3 INVESTMENTS CONTINUED

($ thousands)

Purpose	2011					2010	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount [a]	Net Fair Value [b]	Notional Amount [a]	Net Fair Value [b]
	%						
Equity replication derivatives [c]	100	-	-	$ 43,669	$ 145	$ 22,278	$ 367
Interest rate derivatives [d]	46	12	42	14,724	136	8,183	93
Foreign currency derivatives [e]	100	-	-	29,936	33	10,488	76
Credit risk derivatives [f]	50	15	35	15,799	(146)	17,760	(139)
Derivative related receivables, net					168		397
Deposits in futures margin accounts					544		585
Net derivative related investments					$ 712		$ 982

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method for determining the fair value of derivative contracts is described in Note 2(e).

(c) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified 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.

(d) Interest rate derivatives allow the Fund 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 and futures contracts and options.

(e) 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.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 Statement of Investment Policies and Goals (SIP&G) approved by the Minister of Finance and Enterprise. The purpose of the SIP&G is to ensure the Fund is invested and managed in a an appropriate level of risk. AIMCo 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 3).

Actuarial liabilities of the Fund are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Ministry established the following asset mix policy ranges:

	%		
	Policy Benchmark	Minimum	Maximum
Interest bearing securities	**46**	**43**	**53**
Deposits and short-term securities	13	5	20
Bonds and mortgages	33	28	38
Public equities	**48**	**40**	**55**
Canadian	16	11	21
Global	32	22	42
Inflation sensitive	**6**	**-**	**10**
Real estate	4	-	6
Real return bonds	-	-	-
Infrastructure	2	-	4

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. Interest bearing securities, reported in Note 3, primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign currency risk

A portion of the Fund's investments is denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the fair value of the Fund's investments by $3 million (2010: $3 million).

Interest rate risk

Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. The Fund's exposure to interest rate risk is primarily held in its interest bearing securities. 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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $2 million (2010: $2 million).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 Fund's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in the equity market indices, with all other variables held constant, would result in an approximate decrease in the value of public equity investments by approximately $3 million (2010: $3 million).

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. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables for investment purchases.

NOTE 5 NET INVESTMENT INCOME

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

($ thousands)

	2011			2010		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 2,674	$ (64)	$ 2,610	$ 5,422	$ (73)	$ 5,349
Canadian equities	2,077	(11)	2,066	3,496	(16)	3,480
Interest-bearing securities	1,791	(25)	1,766	2,477	(21)	2,456
Real estate	255	(9)	246	(148)	(8)	(156)
Infrastructure	69	(12)	57	45	(12)	33
Real return bonds	44	-	44	14	-	14
Plan investment expenses	-	-	-	-	(8)	(8)
	$ 6,910	$ (121)	$ 6,789	$ 11,306	$ (138)	$ 11,168

Income is comprised of income from investments in pooled funds managed by AIMCo.

NOTE 6 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by Fund and its share of expenses through pool investment funds. Investment services provided directly by Alberta Investment Management Corporation are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Fund and treasury management services. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments are provided below:

	($ thousands)	
	2011	**2010**
Total Investment Expenses	**$ 121**	**$ 138**
Average fair value of investments	76,389	62,355
Percent of investments at average fair value	0.16%	0.22%

NOTE 7 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Fund:

	2011	**2010**	**Four-Year Compound Annualized Return**	**Five-Year Compound Annualized Return**
Time-weighted rates of return [(a)]		*in percent*		
Actual Gain (loss) [(b)]	**8.8**	**18.9**	**1.3**	2.9
Benchmark gain (loss) [(b)]	8.7	15.8	2.1	3.5
Value added (lost) by investment manager	0.1	3.1	(0.8)	(0.6)

(a) The measure involves the calculation of the return realized by the Plan 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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

NOTE 8 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (Unregistered Plan)

An actuarial valuation of the Unregistered Plan was carried out as at December 31, 2008 by Johnson Incorporated and was then extrapolated to March 31, 2011.

As at March 31, 2011 the Unregistered Plan reported an actuarial Surplus of $8.2 million (2010: deficiency of $1.5 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance and Enterprise.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Minister of Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the balance sheet as at March 31, 2011, 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 generally accepted accounting principles, 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 in my audit 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, 2011 and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 31, 2011

Edmonton, Alberta

Balance Sheet

As at March 31, 2011

	($ thousands)	
	2011	**2010**
Assets		
Investments (Note 3)	$ 43,075	$ 35,745
Receivable from participating employers	102	129
Receivable from sale of investments	-	-
	43,177	35,874
Liabilities		
Liability for investment purchases	-	(75)
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(43,177)	(35,799)
Net Assets	$ -	$ -

Financial Information

Statement of Changes in Net Assets

Year Ended March 31, 2011

	($ thousands)	
	2011	**2010**
Net Investment income (Note 6)		
Net investment income	$ 4,222	$ 6,520
Investment expenses	(109)	(95)
	4,113	6,425
Contributions	3,265	3,575
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(7,378)	(10,000)
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, 2011

(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

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

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles.

Reserve Fund investments are held in pooled investment funds administered by Alberta Investment Management Corporation (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

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded in the financial statements at fair value.

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.

For private equity and infrastructure investments, timberland and real estate investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may 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. A change in the estimated fair value of an investment is recorded in the period in which the new information is received.

The methods used by AIMCo to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

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

ii) Private fixed income securities and mortgages 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.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of 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 multiple earnings analyses.

iv) The fair value of private real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of timberland investments is appraised annually by independent third party valuators.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 3) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

iii) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

iv) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

v) 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.

f) 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 and Enterprise, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2011 was 11.4% (2010: 11.4%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit.* Effective July 1, 2011 the new rate will be 22.6% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

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

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 financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Fund's private and alternative investments and real estate. Uncertainty arises because the estimated fair values of the Fund's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Fund's private 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 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

	($ thousands)			
	2011		2010	
	Fair Value		Fair Value	
		%		%
Interest bearing securities				
Deposits and short-term securities [(a)]	$ 476	1.1	$ 437	1.2
Bonds and mortgages [(b)]	8,834	20.5	7,171	20.1
	9,310	21.6	7,608	21.3
Public Equities				
Canadian [(c)]	8,570	19.9	7,613	21.3
Global developed [(d)]	20,530	47.7	17,438	48.8
Emerging markets equities [(e)]	134	0.3	116	0.3
	29,234	67.9	25,167	70.4
Alternative investments				
Private equities [(f)]	958	2.2	263	0.7
Real estate [(g)]	2,073	4.8	1,699	4.8
Infrastructure [(h)]	1,004	2.3	816	2.3
Timberland [(i)]	496	1.2	192	0.5
	4,531	10.5	2,970	8.3
Total investments [(j)(k)]	$43,075	100.0	$35,745	100.0

The Reserve 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 Reserve Fund's board. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Fund's share of the net asset value of the pooled investment funds. 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 authority to independently purchase and sell securities in the pools and units of the pools within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $427 (2010: $315) and short-term securities of $49 (2010: $122). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

b) The bond and mortgage portfolio includes policy allocations to universe bonds totalling $5,810 (2010: $4,664) and mortgages totalling $3,024 (2010: $2,507). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At March 31, 2011, interest-bearing bonds and mortgages had an average effective market yield of 4.4% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 11% (2010: 3%); 1 to 5 years: 33% (2010: 33%); 5 to 10 years: 31% (2010: 36%); 10 to 20 years: 12% (2010: 13%); and over 20 years: 13% (2010: 15%).

NOTE 3 INVESTMENTS CONTINUED

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

g) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation

i) Infrastructure includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

j) The following table provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Fund's investments. The measure of reliability is determined based on the following three level

   Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models.

Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques

	($ thousands)			
Investment:	**Level One**	**Level Two**	**Level Three ***	**Total**
Interest bearing securities	$ -	$ 6,237	$ 3,073	$ 9,310
Public equities	19,727	8,184	1,323	29,234
Alternative investments	-	-	4,531	4,531
2011 - Total Amount	**$ 19,727**	**$ 14,421**	**$ 8,927**	**$ 43,075**
- Percent	**46%**	**33%**	**21%**	**100%**
2010 - Total Amount	$ 16,273	$ 13,090	$ 6,382	$ 35,745
- Percent	46%	37%	18%	100%
Increase during the year	**$ 3,454**	**$ 1,331**	**$ 2,545**	**$ 7,330**

*** Reconciliation of Level 3 Fair Value Measurements**

	($ thousands)
	2011
Balance, beginning of year	$ 6,382
Investment income	683
Purchases of Level 3 pooled fund units	2,915
Sale of Level 3 pooled fund units	(1,053)
Balance, end of year	**$ 8,927**

k) Included in the fair value of the Fund’s investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $522, or 1.2% of total investments (2010: $655 or 1.8% of total investments).

NOTE 3 INVESTMENTS CONTINUED

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at March 31, 2011:

($ thousands)

	2011					2010	
	Maturity				Net		Net
	Under	1 to 3	Over	Notional	Fair	Notional	Fair
Purpose	1 Year	Years	3 Years	Amount (a)	Value (b)	Amount (a)	Value (b)
		%					
Equity replication derivatives (c)	100	-	-	$ 31,342	$ 108	$ 16,790	$ 256
Interest rate derivatives (d)	45	21	34	5,557	(26)	3,342	(29)
Foreign currency derivatives (e)	100	-	-	21,227	12	7,274	47
Credit risk derivatives (f)	50	15	35	3,430	(32)	3,985	(31)
Derivative related receivables, net					62		243
Deposits in futures margin accounts					460		412
Net derivative related investments					$ 522		$ 655

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method for determining the fair value of derivative contracts is described in Note 2(e).

(c) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified 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.

(d) Interest rate derivatives allow the Fund 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 and futures contracts and options.

(e) 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.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 Statement of Investment Policies and Goals (SIP&G). The SIP&G is approved by the board. 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. AIMCo 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 3).

Actuarial liabilities of the Fund are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Ministry established the following asset mix policy ranges:

	Policy	%	
	Benchmark	Minimum	Maximum
Interest bearing securities	**36.5**	**33**	**45.0**
Deposits and short-term securities	0.5	-	2.5
Bonds and mortgages	36	33	43
Equities and alternative investments	**63.5**	**-**	**-**
Public equities	**46**	**38**	**54**
Canadian	16	11	21
Global developed	30	20	40
Alternative investments	**17.5**	**6.0**	**19.5**
Private equities	2	-	3
Real estate	5	2.5	7.5
Real return bonds	4.5	3.5	5.5
Infrastructure	4	-	5
Timberland	2	-	3

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 Fund. 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 values of all investments reported in Note 3 are directly or indirectly impacted by credit risk to some degree. Interest bearing securities primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign currency risk

A portion of the Fund's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Fund's investments by $2 million (2010: $2 million).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Interest rate risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. The Fund's exposure to interest rate risk is primarily held in its interest bearing securities. 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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Fund's interest bearing investments of $1 million (2010: $1 million).

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 Fund's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in the equity market indices, with all other variables held constant, would result in an approximate decrease in the value of public equity investments by approximately $2 million (2010: $2 million).

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, employee and employer contributions, and by investing in 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 the supplementary retirement plan for public service managers and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's future liabilities include the amounts payable to supplementary retirement plan for public service managers.

NOTE 5 NET INVESTMENT INCOME

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

($ thousands)

	2011			2010		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 1,839	$ (44)	$ 1,795	$ 3,586	$ (47)	$ 3,539
Canadian equities	1,548	(8)	1,540	2,372	(10)	2,362
Interest-bearing securities	483	(9)	474	656	(9)	647
Real estate	225	(8)	217	(121)	(7)	(128)
Infrastructure	76	(9)	67	30	(9)	21
Timberland	33	(2)	31	(14)	(2)	(16)
Private equities	18	(16)	2	11	(11)	-
Plan investment expenses	-	(13)	(13)		-	-
	$ 4,222	$ (109)	$ 4,113	$ 6,520	$ (95)	$ 6,425

Income is comprised of income from investments in pooled funds managed by AIMCo.

NOTE 6 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by Fund and its share of expenses through pool investment funds. Investment services provided directly by Alberta Investment Management Corporation are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Fund and treasury management services. A portion of these costs is charged to the Fund.

Investment expenses as a percentage of average fair value of investments are provided below:

	($ thousands)	
	2011	2010
Total Investment Expenses	**$ 109**	**$ 95**
Average fair value of investments	39,410	30,769
Percent of investments at average fair value	0.28%	0.31%

NOTE 7 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Fund:

	2011	2010	Four-Year Compound Annualized Return	Seven-Year Compound Annualized Return
Time-weighted rates of return (a)				
Actual gain (b)	**9.7%**	**20.0%**	**1.4%**	**5.0%**
Benchmark gain (b)	9.7%	17.0%	2.5%	5.4%
Value gained (lost) by investment manager	0.0%	3.0%	(1.1%)	(0.4%)

(a) The measure 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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

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

An actuarial valuation of the SRP was carried out as at December 31, 2009 by Aon Consulting Inc. and was then extrapolated to December 31, 2010.

As at December 31, 2010 the SRP reported an actuarial deficit of $39.6 million (2009: deficit $39.5 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These Financial statements were approved by the Deputy Minister of Finance and Enterprise.

Financial Information

Provincial Agencies and Non-commercial Crown-controlled Corporations

Provincial Agencies and Non-Commercial Crown-controlled Corporations

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

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These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2010 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

AUDITOR GENERAL
Alberta

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Capital Finance Authority, which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of net income, comprehensive income and retained earnings, and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

March 9, 2011

Edmonton, Alberta

Balance Sheets

As at December 31

(thousand of dollars)

	2010	2009
Assets:		
Cash (Note 4)	$ 30,881	$ 13,438
Loans to local authorities (Note 5)	10,326,592	8,347,277
Derivatives in favourable position (Note 7)	316,145	248,935
	$ 10,673,618	$ 8,609,650
Liabilities and Shareholders' Equity:		
Liabilities:		
Accounts payable	$ 655	$ 672
Debt (Note 6)	9,901,524	8,177,483
Derivatives in unfavourable position (Note 7)	476,630	260,412
	10,378,809	8,438,567
Commitments (Note 12)		
Shareholders' equity:		
Share capital (Note 9)		
Issued and fully paid:		
6,346 shares (2009 - 6,345 shares)	64	64
Retained earnings	294,745	171,019
	294,809	171,083
	$ 10,673,618	$ 8,609,650

The accompanying notes are part of these financial statements.

These financial statements were approved by the Board of Directors.

Original signed by:

L.R. Gordon
Chair of the Board

Original signed by:

T.S. Stroich, FCA
President

Statements of Net Income, Comprehensive Income and Retained Earnings

For the year ended December 31

(thousand of dollars)

	Budget (Note 13)	2010	2009
Interest Income:			
Loans	$ 384,320	$ 420,256	$ 376,028
Swaps (pay fixed receive floating)	(210,214)	(224,832)	(186,329)
Investments (Note 4)	400	622	660
	174,506	196,046	190,359
Interest Expense:			
Debt	256,761	261,136	267,543
Swaps (receive fixed pay floating)	(108,434)	(102,324)	(102,001)
Commission fees	9,960	2,919	1,405
Amortization of net discounts on debt	4,433	-	-
	162,720	161,731	166,947
Net interest income	11,786	34,315	23,412
Other Income:			
Loan prepayment fees	-	123	224
Net interest income and other income	11,786	34,438	23,636
Non-Interest Expense:			
Administration and office expenses (Note 10)	1,005	873	845
Income before unrealized gains (losses)	10,781	33,565	22,791
Unrealized gain (loss) on loans	-	370,539	(55,031)
Unrealized (loss) gain on debt	-	(131,675)	39,495
Unrealized (loss) gain on derivatives	-	(148,703)	206,966
Total unrealized gain	-	90,161	191,430
Net income and comprehensive income	10,781	123,726	214,221
Retained earnings (deficit), beginning of year	57,961	171,019	(43,202)
Retained earnings, end of year	$ 68,742	$ 294,745	$ 171,019

Statements of Cash Flow

For the year ended December 31

(thousand of dollars)

	2010	2009
Operating Activities:		
Interest received:		
- Loans	$ 417,579	$ 377,219
- Investments	622	660
- Swaps (receive fixed pay floating)	106,321	96,422
Loan prepayment fees	123	224
Commission fees	(2,919)	(1,405)
Administration and office expenses	(877)	(928)
Interest paid:		
- Debt	(265,920)	(274,221)
- Swaps (pay fixed receive floating)	(228,545)	(161,100)
Cash flows from operating activities	26,384	36,871
Investing Activities:		
Loan repayments	541,729	640,379
New loans issued	(2,147,807)	(1,968,871)
Cash flows used in investing activities	(1,606,078)	(1,328,492)
Financing Activities:		
Debt issues	6,126,386	6,895,208
Debt redemptions	(4,529,249)	(5,596,477)
Cash flows from financing activities	1,597,137	1,298,731
Net increase in cash	17,443	7,110
Cash, beginning of year	13,438	6,328
Cash, end of year	$ 30,881	$ 13,438

Notes to the Financial Statements

December 31, 2010, with comparative figures for 2009

(all amounts presented in thousands of dollars, except share amounts)

1. **Authority**
   The Alberta Capital Finance Authority (ACFA) operates under the authority of the *Alberta Capital Finance Authority Ac*t, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders.

2. **Future Changes to Accounting Policies**
   In February 2008, the CICA's Accounting Standard Board confirmed that Canadian public companies will have to adopt International Financial Reporting Standards (IFRS) effective for the fiscal years beginning on or after January 1, 2011. ACFA was considering adopting these standards.

   In October 2009, the Public Sector Accounting Standards Board (PSAB) announced that government business enterprises are required to adopt IFRS and that the definition of government business-type organizations would cease to exist. Such organizations would have a choice of adopting either IFRS or Public Sector Accounting Standards. In January 2010, PSAB issued an exposure draft that deals with *First-time Adoption of Public Sector Accounting Standards by Government Organizations* which would be effective for fiscal periods beginning on or after January 1, 2011. ACFA has determined that it does not meet the definition of a government business enterprise and currently plans to adopt the PSAB accounting standards for its fiscal year beginning January 1, 2011.

3. **Significant Accounting Policies and Reporting Practices**
   These financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and include the following significant accounting policies:

   a) **Measurement Uncertainty**
      The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of financial instruments.

   b) **Comprehensive Income**
      Comprehensive income is composed of net income and other comprehensive income. Other comprehensive income may include any unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivative instruments designated as cash flow hedges. Currently ACFA has no other comprehensive income.

c) Valuation of Financial Instruments

All financial instruments which include loans and debt have been classified as held-for-trading and are measured at fair value at the settlement date.

i) Loans

The fair value of loans is calculated using future interest and principal cash flows for all loans using a discount factor curve to determine the present value of each cash flow.

The discount factor curve is calculated using the ACFA's estimated market borrowing rates as a base and adding a premium of 12 basis points to this curve. ACFA's borrowing rates are used as a base as it is assumed based on payment history and security covenants in place, that the loan portfolio has credit risk similar to that of ACFA. A premium of 12 basis points is added to these rates to reflect that financial securities with irregular payments would require a higher rate if sold in the market. The 12 basis point premium is based on historical averages and is not adjusted to reflect short-term changes in market conditions.

ii) Debt

The fair value of debt is calculated using market rates for ACFA debt based on credit spread indications for new debt issues received from ACFA's borrowing syndicate managers and are determined by taking Government of Canada bond interest rates at the close of business on the last business day of the period and adding the indicative new issue spread to these rates.

Bonds (i.e. bullets with no options with the entire principal amount paid at maturity) are valued by interpolating the yield to maturity for each individual bond from the calculated indicative borrowing rates. This yield to maturity is used to calculate the market value, including accrued interest, for each bullet bond using common bond pricing methodology.

Structured notes, including step-up notes, accrual notes and floating rate notes are valued using formulas that require a discount factor curve, which is computed from the indicative borrowing rates and inputs on option volatility as estimated in the swap market.

iii) Derivatives

ACFA has chosen not to designate its interest rate swaps as hedges. Therefore hedge accounting is not applied and derivatives are carried on the balance sheets at fair value and changes in fair value are recorded in income. Net interest paid or received on the pay fixed receive floating interest rate swaps is presented as part of interest income, and the net interest paid or received on the receive fixed pay floating interest rate swaps is presented as part of interest expense.

Fair values are determined using models based on third party valuation software which takes into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value) and are recorded as derivative assets and derivative liabilities respectively. Changes in the fair value of derivative instruments are recorded in income.

4. Cash

Cash is on deposit in the Consolidated Cash Investment Trust Fund (Fund) of the Province of Alberta and 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 short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2010, securities held by the Fund have a time-weighted return of .84% per annum (December 31, 2009 – 1.39% per annum).

5. Loans to Local Authorities

Loans to Local Authorities	2010	2009
Fair value	$ 10,326,592	$ 8,347,277
Contractual principal	$ 9,524,751	$ 7,918,673
Accrued interest receivable	97,436	94,738
	$ 9,622,187	$ 8,013,411

The fair value of loans is calculated using future interest and principal cash flows for all loans using an interest rate curve to determine the present value (Note 3c(i)). As at the balance sheets date, the estimated sensitivity of the fair value of loans to a change in the interest rate of one (1) basis point is $7,514 (2009 - $5,611).

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.

As at and for the year ended December 31, 2010, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. Since ACFA considers that there has been no change in the credit quality of its borrowers, the change to fair value of loans is based only on the change in the market interest rate.

6. Debt

Debt (Schedule 1)	2010	2009
Fair Value	$ 9,901,524	$ 8,177,483
Contractual principal	$ 9,497,846	$ 7,899,846
Unamortized discount	(3,379)	(2,129)
Accrued interest payable	45,274	50,045
	$ 9,539,741	$ 7,947,762

The fair value of debt is calculated using market rates at the close of business on the last business day of the year and adding the indicative new issue spreads to these rates. The determination of fair value also considers the impact of a change in ACFA's credit worthiness on the fair value of its debt. ACFA's credit rating issued by the major rating agencies together with the Province of Alberta, guarantor of its debt, remains at the same level as for the previous year and therefore has no impact on its fair value of debt. As at the balance sheets date, the estimated sensitivity of the fair value of debt to a change of one (1) basis point in the market rate used to calculate fair value is $3,372 (2009 - $3,644).

The debt of ACFA is fully guaranteed by the Province of Alberta.

Debt with a fair value of $178,356 (contractual principal - $166,000) (2009: fair value - $177,879; contractual principal - $165,000) is comprised of a combination of various issues of step-up and accrual notes whereby ACFA has the option of extending or calling the debt, at predetermined extension or call dates. In the event that ACFA exercises its option to call or not extend the debt at the predetermined extension or call dates, the debt is redeemed at the contractual principal amount with no gain or loss to ACFA. In the event ACFA does not exercise its option to call or redeem the debt at the predetermined extension or call dates, the contractual principal amount is due at the final maturity date (Schedule 1).

For the next five years contractual debt redemption requirements, with the assumption that the step-up and accrual notes are redeemed at the first extendible date and all other debt at the maturity date, are as follows:

	Debt Redemption
2011	$ 1,750,200
2012	1,510,000
2013	1,945,000
2014	656,500
2015	800,000
	$ 6,661,700

7. Derivative Financial Instruments

To minimize its interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps are used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time.

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 notional amounts are not recorded in the balance sheets. 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.

Interest rate swaps with a notional value of $166,000 (2009 - $165,000) related to the step-up and accrual notes have the option which allows the counterparty to extend or call the swap at predetermined extension or call dates. If the counterparty exercises their option to call or redeem the interest rate swap at the predetermined extension or call date, ACFA will in turn exercise their option to call or redeem the corresponding debt instrument and there will be no gain or loss to ACFA.

The notional amounts of interest rate swaps are summarized as follows:

	As at December 31					
Maturities	**Within 1 Year**	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**Total**
Interest rate swaps - 2010	$ 63,074	$ 105,430	$ 1,054,489	$ 2,161,883	$ 7,160,721	$10,545,597
Interest rate swaps - 2009	$ 80,435	$ 79,627	$ 513,461	$ 2,134,207	$ 6,022,923	$ 8,830,653

The notional amounts of the interest rate swaps related to the step-up and accrual notes have been included in the above table based on their maturity date.

The cost of replacing the remaining cash flows of the interest rate swaps at the prevailing prices and market rates are summarized as follows:

			Current Replacement Cost	
	Notional Outstanding	**Net Fair Value**	**Contracts in Favourable Position**	**Contracts in Unfavourable Position**
Interest rate swaps - 2010	$ 10,545,597	$ (160,485)	$ 316,145	$ (476,630)
Interest rate swaps - 2009	$ 8,830,653	$ (11,477)	$ 248,935	$ (260,412)

The contractual amount of accrued interest receivable and payable on interest rate swaps as at December 31 are as follows:

	2010	2009
Accrued interest receivable	$ 12,081	$ 16,078
Accrued interest payable	$ 33,997	$ 37,710

The fair value of interest rate swaps has been calculated using valuation methodologies that take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. The determination of fair value also considers the impact of the counterparty's credit worthiness on the fair value of derivatives. As at the balance sheets date, the estimated sensitivity of the fair value of derivatives in a favourable or unfavourable position to a change in the market rate of one (1) basis point is $1,191 and $5,504 respectively (2009 - $541 and $3,078 respectively).

Current credit exposure is limited to the amount of loss that ACFA would suffer if every counterparty to which ACFA was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing (A+ or greater).

Under the Province of Alberta's master agreement with counterparties, ACFA can in the event of a counterparty default, net its favourable and unfavourable positions with a counterparty. In addition, under the agreement, one Credit Support Annex (CSA) has been signed with a counterparty which will require ACFA or the counterparty to provide collateral based on established thresholds which further enhances ACFA's credit position. As at December 31, 2010 neither ACFA nor the counterparty is required to post collateral under the CSA.

Derivative assets and liabilities are presented gross on the balance sheets. Although the amounts do not qualify for offset, derivative instruments in a favourable position of $296,053 at December 31, 2010 (2009 - $203,112) are subject to master netting arrangements which reduces ACFA's credit exposure by an equivalent amount.

8. Capital Management

ACFA is an agent of the Province of Alberta and a crown corporation whose debt is fully guaranteed by the Province of Alberta which provides ACFA access to capital markets to obtain low cost debt financing.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital, designated as retained earnings, 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 retained earnings before adjustments for fair value. Capital management objective, policies and procedures are unchanged since the preceding year.

As almost all loans, debt and interest rate swaps are held to maturity or to the earliest call date and operate in accordance with the terms of the contract, gains or losses are expected to be realized over the lives of these instruments. As such, ACFA's retained earnings of $294,745 at December 31, 2010 (2009 – $171,019), includes retained earnings of $90,694 (2009 - $56,742) determined before the effect of the accumulated unrealized fair value adjustments, and retained earnings of $204,051 (2009 – $114,277), related to accumulated unrealized fair value adjustments.

9. Share Capital

Particulars of share capital valued at $10.00 per share with voting rights, established in legislation, which relate only to the election of a director representing the shareholders are as follows:

			Number of Shares		Total
				Issued and	Dollar
Class	Restricted to		Authorized	Fully Paid	Amount
A	Province of Alberta		4,500	4,500	$45,000
B	Municipal authorities, airport and health authorities		1,000	890	8,900
C	Cities		750	588	5,880
D	Towns and villages		750	285	2,850
E	Educational authorities		500	83	830
		2010	7,500	6,346	$63,460
		2009	7,500	6,345	$63,450

During the year, seven Class B and three Class C shares were issued and nine Class D shares were cancelled.

10. Directors' and Audit Committee Fees and Related Party Transactions
Directors' and Audit Committee fees paid by ACFA are as follows:

	2010		2009	
	Number of Individuals	Total	Number of Individuals	Total
Board/Audit Committee Chairs	2	$ 11	2	$ 11
Board/Audit Committee members	8	$ 28	8	$ 26

There are two additional Board members who are employees of the Province of Alberta and do not receive compensation from ACFA.

ACFA has advanced loans to local authorities under the ME*first!* Municipal Energy Efficiency Assistance Program (the "Program") on behalf of Alberta Municipal Affairs and Alberta Environment. Under the Program, principal was advanced to qualifying municipalities by ACFA and repayments of principal are made by the municipality; however, the interest is paid by the Province of Alberta. The Program has been discontinued but the loans will continue until they are paid out. Included in the balance of loans to local authorities at December 31, 2010 is principal of $5,294 (2009 - $10,511), upon which, interest of $315 (2009 - $560) has been recorded in interest income from loans.

ACFA has no employees. Included in administration and office expenses of $873 (2009 - $845) is the amount of $451 (2009 - $488) that was paid to the controlling shareholder, the Province of Alberta for services at prices measured at the exchange amount, which approximate market.

11. Financial Risk Management
In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's equity. For most loans made after January 1, 2004, ACFA uses interest rate swaps to swap fixed rate loan interest to floating, floating rate notes which reprice at approximately the same time as the loans, debt rate swaps to swap fixed rate debt interest to floating and forward rate agreements to minimize the exposure related to the mismatch of reset dates of the loan and debt swaps.

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

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

Credit risk from borrowers is fully explained in Note 5 and ACFA does not believe that it has any credit exposure on loans.

Credit exposure with derivative counterparties is further explained in Note 7.

Notes to the Financial Statements, continued

b) Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive debt. The following table summarizes the contractual principal amounts of ACFA's interest sensitive assets and liabilities, with the assumption that the step-up and accrual notes are redeemed at the first extendible date and all other debt at the maturity date, based on the earlier of repricing or principal repayments:

As at December 31

Maturities		Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2010 Total	2009 Total
Assets								
Cash		$ 30,881	$ -	$ -	$ -	$ -	$ 30,881	$ 13,438
Accrued Interest Receivable		109,519	-	-	-	-	109,519	110,839
Loans to Local Authorities		350,254	648,971	2,125,902	2,253,523	4,146,101	9,524,751	7,918,673
Effective Rate		4.8%	4.9%	4.9%	4.9%	5.2%	4.9%	5.2%
Total		490,654	648,971	2,125,902	2,253,523	4,146,101	9,665,151	8,042,950
Liabilities								
Accrued Interest Payable		$ 79,271	$ -	$ -	$ -	$ -	$ 79,271	$ 87,755
Debt	(i)	4,945,200	510,000	1,206,500	1,622,367	1,213,779	9,497,846	7,899,846
Effective Rate		4.3%	4.9%	4.8%	5.5%	5.5%	5.0%	5.1%
Total		5,024,471	510,000	1,206,500	1,622,367	1,213,779	9,577,117	7,987,601
Cumulative Gap 2010		$ (4,533,817)	$ 138,971	$ 919,402	$ 631,156	$2,932,322	$ 88,034	
Cumulative Gap 2009		$ (3,131,404)	$ 200,769	$ 751,878	$ 387,146	$1,846,960		$ 55,349

(i) Includes various floating rate notes in the aggregate amount of $3,899,200 with rates of Canadian Deposit Offered Rate plus predetermined spreads.

Interest rate swaps of pay fixed/receive floating and receive fixed/pay floating in the notional amounts of $7,599,318 and $2,946,279 respectively (2009 - $6,115,703 and $2,714,950 respectively) have not been included in the above table.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for both interest rate sensitive assets and liabilities at the balance sheets date. Interest rate sensitive assets at December 31, 2010 consist of cash on hand, accrued interest receivable and loans which have been swapped from fixed to floating. Interest rate sensitive liabilities at December 31, 2010 consists of accrued interest payable, debt which has been swapped from fixed to floating, debt due within one year and floating rate debt.

The potential impact of an immediate and sustained increase of 50 basis points in interest rates with all other variables held constant throughout the year would have the following impact on interest income and interest expense from interest rate sensitive assets and liabilities respectively:

		2010		2009
Assets	$7,771,347 X .5% =	$ 38,857	$6,317,668 X .5% =	$ 31,588
Liabilities	$7,555,405 X .5% =	37,777	$6,055,906 X .5% =	30,279
Net interest income		$ 1,080		$ 1,309

c) **Liquidity Risk**
Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations as they become due and also meet the loan requirements of our local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, ACFA manages this by raising funds, when required, in the Canadian market. Access to this market is enhanced as ACFA is an agent of, and its debt is unconditionally guaranteed by, the Province of Alberta. The maturities of ACFA's contractual cash flows from financial liabilities at December 31, 2010 are as follows:

Financial liabilities		2011	2012	2013	2014 and Beyond
Accounts payable		$ 655	$ -	$ -	$ -
Debt - contractual repayments of principal	(1)	1,594,200	1,500,000	1,945,000	4,458,646
Debt - contractual payments of interest		298,548	211,598	182,148	1,163,909
Derivatives in unfavourable position - pay fixed, receive floating interest rate swaps - net		210,395	206,027	197,203	1,830,265
Commitments		222,054	54	27	-
Total		$ 2,325,852	$ 1,917,679	$ 2,324,378	$ 7,452,820

Although disclosure is only required of the liquidity analysis for all financial liabilities, management has determined that the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk:

Financial assets		2011	2012	2013	2014 and Beyond
Loans to local authorities - contractual collection of principal	(2)	$ 350,254	$ 648,971	$ 513,152	$ 8,012,374
Loans to local authorities - contractual collection of interest	(2)	449,100	430,327	398,091	3,259,131
Derivatives in favourable position - receive fixed, pay floating interest rate swaps - net	(2)	87,400	85,906	87,201	701,845
Total		$ 886,754	$ 1,165,204	$ 998,444	$ 11,973,350

(1) Cash flows for debt contractual repayment of principal are determined with the assumption that the step-up and accrual notes will not be redeemed until maturity.
(2) The amounts presented represent the contractual collection of principal and interest and assumes no prepayments or no credit default on behalf of the counterparties, or the local authorities.

Where the amount of interest payable is not fixed, as is the case for issued debt that has a variable interest rate or the floating leg of an interest rate swap, the amounts included in the above table have been determined by reference to the conditions existing at the balance sheets date.

The interest and principal payments as well as other payments for derivative financial instruments are relevant for the presentation of the maturities of the cash flow. Future cash flows are not discounted.

d) Fair Value Hierarchy

Financial instruments recorded at fair value on the balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the balance sheets, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	Total financial assets and financial liabilities at fair value 2010	2009
Financial assets					
Cash	$ 30,881	$ -	$ -	$ 30,881	$ 13,438
Loans to local authorities	-	10,326,592	-	10,326,592	8,347,277
Derivatives in favourable position	-	316,145	-	316,145	248,935
Total financial assets	$ 30,881	$10,642,737	$ -	$10,673,618	$ 8,609,650
Financial liabilities					
Debt	$ -	$ 9,901,524	$ -	$ 9,901,524	$ 8,177,483
Derivatives in unfavourable position		476,630	-	476,630	260,412
Total financial liabilities	$ -	$10,378,154	$ -	$10,378,154	$ 8,437,895

During the year, there has been no transfer of amounts between Level 1 and Level 2.

12. Commitments

a) Lease

ACFA has obligations under an operating lease for the rental of premises, expiring in July 2013 at an annual minimum as follows:

2011 – $54
2012 – $54
2013 – $27

b) Loan

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 and maturities, subject to certain conditions and are recently authorized loans not yet drawn down.

Notes to the Financial Statements, continued

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

	2010	2009
Loan commitments as at December 31	$ 222,000	$ 27,025

13. Budget
The 2010 budget was approved by the Board of Directors on December 10, 2009 and is unaudited. For purposes of budget preparation, financial instruments are reflected at amortized cost and fair values are not included.

14. Comparative Figures
Certain comparative figures have been reclassified to conform to the current year's presentation.

Schedule of Debt

As of December 31

(thousand of dollars)

Schedule 1

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Canada Pension Plan Investment Fund/ CPP Investment Board					
Oct 01, 2020		6.2800	$ 222,367	$ 274,553	
Jun 01, 2022		6.0600	100,000	121,977	
Apr 05, 2023		5.8900	50,000	60,920	
Dec 01, 2023		5.5000	150,000	175,911	
Dec 03, 2024		5.1800	78,000	88,911	
Nov 03, 2026		4.4900	200,000	212,665	
Nov 03, 2031		4.5000	125,396	132,279	
Nov 02, 2032		4.8300	190,383	209,756	
Total			1,116,146	1,276,972	
Public					
Jan 11, 2011		0.9767	80,000	79,974	
Jan 18, 2011		0.9800	100,000	99,948	
Feb 14, 2011		0.9654	85,000	84,887	
Feb 16, 2011		0.9059	155,000	154,785	
Feb 22, 2011		0.8861	55,000	54,913	
Apr 14, 2011		1.0769	70,000	69,767	
Apr 18, 2011		1.0910	95,000	94,669	
Sep 01, 2011		5.7000	200,000	209,700	
Dec 08, 2011		1.5000	704,200	706,232	(iii)
Dec 15, 2011		4.4350	50,000	51,549	
Jun 01, 2012		5.8500	500,000	532,478	
Jun 15, 2012		1.6200	550,000	552,667	(iii)
Oct 09, 2012		1.3700	450,000	450,684	(iii)
Feb 05, 2013		1.3700	625,000	623,898	(iii)
Apr 26, 2013		1.3700	500,000	478,858	(iii)
Oct 01, 2013		1.4100	520,000	518,265	(iii)
Dec 02, 2013		5.0000	300,000	325,776	
Jul 02, 2014		3.0940	106,500	106,179	
Jul 02, 2014		1.6900	550,000	548,340	(iii)
Nov 19, 2014	Nov 19, 2011	2.0000	17,000	17,089	(i)
Mar 23, 2015	Mar 23, 2011	2.0000	26,000	26,305	(i)
Mar 24, 2015	Mar 24, 2011 *	2.0000	17,000	17,250	(i)
May 21, 2015	May 21, 2011	2.0500	10,000	10,124	(i)
May 27, 2015	May 27, 2011	2.0500	10,000	10,108	(i)

Schedule 1, continued

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Jun 01, 2015		4.9000	200,000	220,733	
Jun 15, 2015		3.0500	600,000	614,300	
Sep 15, 2015	Sep 15, 2011	2.2500	13,000	13,086	(i)
Dec 21, 2015	Dec 21, 2012	2.0000	10,000	9,921	(i)
Jun 15, 2016		4.3500	600,000	648,552	
Jun 15, 2017		4.6500	700,000	767,031	
Jun 01, 2018		5.1500	100,000	112,876	
Oct 21, 2019	Apr 21, 2011	2.9000	12,000	11,858	(i)
Dec 22, 2019	Dec 22, 2011	3.0500	10,000	9,879	(i)
Dec 01, 2023		5.1000	20,000	22,639	
Jul 06, 2025	Jan 06, 2011 *	5.0200	16,000	21,013	(ii)
Dec 15, 2025		4.4500	300,000	316,496	
Oct 11, 2030	Oct 11, 2011	5.1600	15,000	18,887	(ii)
Dec 15, 2030	Jun 15, 2011	5.1600	10,000	12,836	(ii)
Total			8,381,700	8,624,552	
Total debt 2010			$ 9,497,846	$ 9,901,524	
Total debt 2009			$ 7,899,846	$ 8,177,483	

(i) These are step-up notes extendible at the ACFA's option which pay interest periodically at a predetermined rate with principal paid on termination.

(ii) These are accrual notes extendible or callable at the ACFA's option which accrue interest compounded semi-annually or annually, and pay interest and principal on termination.

(iii) These are floating rate notes which pay interest quarterly at 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 balance sheets date plus the contractual predetermined spread.

(*) Subsequent to year end these extendible step-up and accrual notes and related derivatives were called on the first extendible date at the contractual principal amount.

Financial Information

ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2010 and December 31, 2009

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PRICEWATERHOUSECOOPERS

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April 21, 2011

Independent Auditor's Report

To the Members of
Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations, changes in net assets and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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 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.

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement of Financial Position

As at December 31, 2010 and 2009

	2010 $	2009 $
Assets		
Current assets		
Cash (note 3)	5,937,146	5,997,290
Accounts receivable	34,319	33,888
Prepaid expenses	67,408	60,148
	6,038,873	6,091,326
Capital assets (note 4)	1,177,625	634,138
	7,216,498	6,725,464
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	229,142	220,393
Deferred license and assessment fee revenue	1,473,223	1,456,505
	1,702,365	1,676,898
Deferred tenant inducement (note 5)	547,938	121,748
	2,250,303	1,798,646
Commitments (note 9)		
Net Assets		
Net assets		
Invested in capital assets (internally restricted)	629,688	512,390
Unrestricted	4,336,507	4,414,428
	4,966,195	4,926,818
	7,216,498	6,725,464

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

Original signed by

Art Bonertz
Chair, Audit Committee

Original signed by

Mel Niebrugge
Chair, Alberta Insurance Council

Statements of Changes in Net Assets

For the years ended December 31, 2010 and 2009

	Invested in capital assets $	Unrestricted $	Total $
Balance – December 31, 2008, as originally stated	736,105	4,073,943	4,810,048
Reclassification of deferred tenant inducements (note 12)	(156,638)	156,638	-
Balance – December 31, 2008, as restated	579,467	4,230,581	4,810,048
Excess of revenue over expenditures	(177,799)	294,569	116,770
Investment in property and equipment	110,722	(110,722)	-
Balance – December 31, 2009	512,390	4,414,428	4,926,818
Excess of revenue over expenditures	-	39,377	39,377
Amortization of capital assets	(225,621)	225,621	-
Amortization of deferred tenant inducement	50,559	(50,559)	-
Deferred rent	(18,748)	18,748	-
Loss on disposal of capital assets	(20,367)	20,367	-
	(214,177)	253,554	39,377
Investment in property and equipment			
Purchase of capital assets	789,475	(789,475)	-
Tenant inducement received (note 5)	(458,000)	458,000	-
	331,475	(331,475)	-
Balance – December 31, 2010	629,688	4,336,507	4,966,195

Invested in capital assets consists of

Capital assets	1,177,625
Deferred tenant inducement	(547,937)
	629,688

Statements of Operations

For the years ended December 31, 2010 and 2009

	Budget 2010 $ (Unaudited)	2010 $	2009 $
Revenue			
License, assessment, examination and continuing education fees	4,335,000	4,383,355	4,440,672
Interest and other	60,000	58,023	75,696
	4,395,000	4,441,378	4,516,368
Expenditures			
Salaries and benefits (note 6)	2,811,000	2,537,400	2,499,122
Occupancy and premises	525,000	514,237	430,821
Councils, Boards and Committees (note 7)	370,000	286,058	355,217
Amortization	225,000	245,373	212,689
Office and administration	215,000	222,622	219,068
Professional fees	200,000	197,253	234,682
Communications (note 11)	205,000	175,808	253,972
Software and computer	130,000	127,987	98,278
Travel	110,000	95,263	95,749
Total expenditures for the year	4,791,000	4,402,001	4,399,598
Excess of revenue over expenditures	(396,000)	39,377	116,770

Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures	39,377	116,770
Items not affecting cash		
Amortization of capital assets	225,621	212,689
Amortization of deferred tenant inducement	(50,559)	(34,890)
Deferred adjustment	18,748	-
Loss on disposal of capital assets	20,367	-
	253,554	294,569
Net changes in non-cash working capital items		
(Increase) decrease in accounts receivable	(431)	8,972
(Increase) decrease in prepaid expenses	(7,261)	21,932
Increase (decrease) in accounts payable and accrued liabilities	8,750	(101,580)
Increase in deferred license and assessment fee revenue	16,717	8,531
	271,329	232,424
Investing activities		
Purchase of capital assets	(331,475)	(110,722)
(Decrease) increase in cash	(60,146)	121,702
Cash – Beginning of year	5,997,290	5,875,588
Cash – End of year	5,937,144	5,997,290
Supplementary information		
Interest received	54,754	84,489

During the year, the Council received a non-cash tenant inducement of $458,000 (note 5).

Financial Information

Notes to Financial Statements

December 31, 2010 and 2009

1 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.

2 Summary of significant accounting policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue recognition

Licence and assessment fees are recognized as revenue on a straight-line basis over the term of the licence and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education ("CE") course approval fees are recognized upon course submission. CE provider fees are recognized on a calendar year basis. Licence and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

Capital assets and amortization

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

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

Examination development costs

Costs of development of examination questions are expensed as incurred.

Deferred tenant inducement and operating leases

The related tenant inducement associated with leased premises is amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy costs.

Rent expense is recognized on a straight-line basis over the lease term. Deferred tenant inducement comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

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.

Financial instruments

The Council's financial assets include cash and accounts receivable. Cash is classified as held-for-trading and is recorded at fair value with realized and unrealized gains and losses reported in the statement of operations for the period in which they arise. Accounts receivable is classified as loans and receivables and is accounted for at amortized cost using the effective interest rate method. Loans and receivables are initially recorded at fair value.

The Council's financial liabilities include accounts payable and accrued liabilities. Financial liabilities are classified as other liabilities and are accounted for at amortized cost using the effective interest rate method. Financial liabilities are initially measured at fair value.

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

The Council applies Canadian Institute of Chartered Accountants ("CICA") Section 3861 – *Financial Instruments Disclosure and Presentation* in place of the optional standards CICA 3862 – *Financial Instruments – Disclosures* and ICA 3863 – *Financial Instruments – Presentation*, effective for financial years beginning on or after October 31, 2007.

Future change in basis of accounting

Accounting standards for not-for-profit organizations

In December 2010, the Canadian Accounting Standards Board issued a comprehensive set of accounting standards applicable to not-for-profit organizations and changes for government not-for-profit organizations ("GNPO"). The standards are effective for fiscal years beginning on or after January 1, 2012 and require retrospective application, except for certain exemptions and exceptions contained within the standards. Early adoption of the standards is permitted. The Government of Alberta has provided direction to the Council to adopt the accounting standards applicable for GNPO effective January 1, 2011. The Council is currently considering the impact of adopting these standards.

Notes to Financial Statements, continued

3 Cash

Included in cash is an amount of $5,607,191 (2009 – $5,622,801) invested in the Consolidated Cash Investment Trust Fund (the "CCITF"). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital.

4 Capital assets

			2010
	Cost $	**Accumulated amortization $**	**Net $**
Leasehold improvements	884,800	208,728	676,072
Furniture and office equipment	396,895	127,543	269,352
Computer equipment	289,255	201,069	88,186
Computer software	794,188	664,499	129,689
Telephone equipment	51,277	39,139	12,138
Asset held for resale	2,188	-	2,188
	2,418,603	1,240,978	1,177,625

			2009
	Cost $	**Accumulated amortization $**	**Net $**
Leasehold improvements	614,669	313,720	300,949
Furniture and office equipment	296,068	140,968	155,100
Computer equipment	213,612	167,610	46,002
Computer software	691,072	580,612	110,460
Telephone equipment	50,346	28,719	21,627
	1,865,767	1,231,629	634,138

The asset held for resale is valued at the net recoverable amount.

5 Deferred tenant inducement

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

In December 2010, the Council moved its Edmonton office from 901 Toronto-Dominion Tower ("TD Tower") to Suite 600, Bell Tower. Both properties are under common ownership.

At the time of the Edmonton move, the Council was in year 4 of a 5-year lease. The lease for the premises in TD Tower was amended to provide for early termination of the lease effective December 3, 2010. In 2007, a tenant inducement of $84,043 had been received from the landlord with respect to leasehold improvements undertaken by the Council on the space in TD Tower. This tenant inducement was deferred and was being recognized as a reduction of rent expense over the 5-year term of the lease. In 2010, the remaining portion of this leasehold inducement in the amount of $15,669 was recognized as a reduction of the current year's rent.

In 2010, a tenant inducement in the amount of $524,100 was provided for by the landlord with respect to the leasehold improvements for the new Edmonton premises. As at December 31, 2010, $458,000 of improvements have been completed. This amount has been deferred, and will be amortized as a reduction of rent during the 10-year term of the lease.

6 Salaries and benefits

	2010				2009	
	FTE's \#	Salary[a] $	Benefits[b] $	Total $	FTE's \#	Total $
Chief Executive Officer	1	221,738	52,630	274,368	1	244,578
Chief Operating Officer	1	192,339	44,435	236,774	1	238,144
Other staff [e]	21	1,749,804	276,454	2,026,258	19	2,016,400
Total	23	2,163,881	373,519	2,537,400	21	2,499,122

[a] Salary includes regular base pay, bonuses and overtime.

[b] Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay. Accrued vacation pay was $28,257 (2009 – $44,805).

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.

Notes to Financial Statements, continued

7 Councils, Boards and Committees

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

	2010 $	2009 $
Councils and Council Committees	212,545	272,691
Appeal Boards	37,161	36,551
Accreditation Committee	36,352	45,975
	286,058	355,217

b) Per diem payments of Council Members

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

	2010[c]		2009	
	#	$	#	$
Councils[a]				
Chair – AIC[b]	1	23,149	1	33,893
Other – Chairs	8	63,513	9	43,160
Members	33	104,556	46	170,838
Total	42	191,218	56	247,891

[a] This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Accreditation Committee.

[b] This includes per diem payments made for attendance at Alberta Insurance Council Audit Committee, Accreditation Committee and the AIC chair annual stipend.

[c] All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from Insurance licenses. This includes public members appointed by the Lieutenant Governor in Council, as well as Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act. For the period January 1 to December 31, 2010, the public member positions for the General Insurance Council and the Insurance Adjusters Council were vacant.

8 Capital disclosures

The Council's objective in managing capital is to ensure a sufficient liquidity position to finance its expenses, working capital and overall capital expenditures.

The Council defines capital as net assets comprised of investment in property and equipment and unrestricted funds.

Since inception, the Council has primarily financed its liquidity through fees from licenses, assessments, examinations and continuing education and interest income on cash invested in the CCITF. The Council expects to continue to meet future requirements through these sources.

The Council is not subject to any externally imposed capital requirements. There have been no changes to the Council's objectives and what it manages as capital since the prior fiscal period.

9 Commitments

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

	$
2011	297,177
2012	369,969
2013	378,493
2014	352,735
2015	227,110
Thereafter	1,260,752

10 Financial instruments

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

Notes to Financial Statements, continued

11 Communications

In recognition of its 20th anniversary, the Council established the Alberta Insurance Council Leadership Award for the promotion and advancement of insurance education and ethics. Donations of $25,000 each were given during 2009 to the University of Calgary and Grant MacEwan University to endow these awards for future years. The Council also provided initial funding of $4,000 per institution for a total of $8,000 to allow for the granting of awards over the next two years. The funding provided during 2009 was sufficient to cover the awards for 2009 and 2010. Future contributions of $2,000 per year may be required in the event that the investment growth of the endowed funds is not sufficient to fund the annual awards.

12 Comparative figures

Certain comparative figures for tenant inducements have been reclassified to conform with the current year presentation format in the Statement of Changes in Net Assets.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2011

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Independent Auditor's Report

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Investment Management Corporation, which comprise the balance sheet as at March 31, 2011 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 generally accepted accounting principles, 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, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 25, 2011

Edmonton, Alberta

Balance Sheet

As at March 31, 2011

(thousand of dollars)

As at March 31, 2011 (*$ thousands*)	**2011**		**2010**	
Assets				
Current Assets				
Cash and cash equivalents (Note 4)	$	19,607	$	26,427
Accounts receivable		14,224		12,196
Prepaid expenses		2,261		1,729
		36,092		40,352
Capital assets (Note 5)		32,345		26,748
	$	68,437	$	67,100
Liabilities and Shareholder's Equity				
Current liabilities				
Accounts payable and accrued liabilities (Note 6)	$	18,952	$	21,699
Accrued vacation and benefits		1,666		1,845
Advance from the Province of Alberta (Note 7)		28,249		28,249
		48,867		51,793
Long-term employee benefits (Note 8)		9,873		4,894
Deferred lease inducement (Note 16)		6,050		6,766
		64,790		63,453
Shareholder's equity (Note 9)				
Contributed surplus		3,647		3,647
		3,647		3,647
	$	68,437	$	67,100

Commitments (Note 16)

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by:

A. Charles Baillie
Board Chair

Original signed by:

Cathy Williams
Audit Committee Chair

Financial Information

Statement of Operations

For the year ended March 31, 2011

(thousand of dollars)

For the year ended March 31, 2011 (*$ thousands*)	**2011 Budget (unaudited) (Note 17)**	**2011 Actual**	**2010 Actual**
Revenue			
Cost recoveries	$ 221,490	$ 247,835	$ 228,683
Interest income	-	253	254
	221,490	248,088	228,937
Expenses			
External investment costs (Note 10)	136,649	171,155	169,277
Salaries, wages and benefits	50,006	47,840	38,647
Contract and professional services	9,409	7,872	5,110
Administration	6,604	7,312	4,697
Data services and subscriptions	10,249	7,277	7,621
Amortization of capital assets	3,964	3,252	1,285
Rent	4,009	3,140	2,233
Interest	600	240	67
	221,490	248,088	228,937
Net income	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, 2011

(thousand of dollars)

For the year ended March 31, 2011 (*$ thousands*)	**2011**	**2010**
Operating activities		
Net income	$ -	$ -
Items not affecting cash		
Amortization of capital assets	3,252	1,285
Amortization of deferred lease inducement	(716)	(304)
Proceeds from deferred lease inducement	-	6,108
Long-term employee benefits	4,979	3,969
	7,515	11,058
Changes in operating accounts (Note 11)	(5,486)	12,587
	2,029	23,645
Investing activities		
Acquisition of capital assets	(8,849)	(20,779)
(Decrease) increase in cash for the year	(6,820)	2,866
Cash and cash equivalents at beginning of year	26,427	23,561
Cash and cash equivalents at end of year	$ 19,607	$ 26,427
Supplementary information		
Interest paid during the period	$ 195	$ 67

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2011

(thousand of dollars)

NOTE 1 AUTHORITY

Alberta Investment Management Corporation (the Corporation) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a board of directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from federal and provincial income taxes.

NOTE 2 NATURE OF OPERATIONS

The purpose of the Corporation is to provide investment management services in accordance with the *Alberta Investment Management Corporations Act* primarily to the Province of Alberta and certain public sector pension plans. The Corporation forms part of the Ministry of Finance and Enterprise for which the Minister of Finance and Enterprise is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of $68.8 billion, see Note 12. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost recovery basis. The Corporation's board of directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

a) Changes In Accounting Policies

Recent Accounting Pronouncements

In April 2010, the Public Sector Accounting Board finalized the requirements for government organizations classified as Other Government Organizations (OGOs) to adopt either CICA Public Sector Accounting Standards (PSAB) or International Financial Accounting Standards. The Corporation is classified by the Government of Alberta's Treasury Board as an OGO and has elected to adopt PSAB. The Corporation will adopt PSAB for its annual financial statements ending March 31, 2012, including comparative amounts on a PSAB basis for the year ending March 31, 2011. The Corporation does not expect that adopting these standards will have a material impact on its financial statements.

b) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP 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 revenues and expenses during the period. Actual results could differ from these estimates. Significant estimates include external investment management fees and long-term employee benefit accruals.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) 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 transaction volume. 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 expenses.

d) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation. Amortization is calculated on a straight-line basis over the following periods:

Computer systems hardware and software	5 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

e) Impairment of Capital Assets

The Corporation assesses the carrying values of capital assets for impairment when circumstances indicate the carrying amounts of the assets may not be recoverable, using projected undiscounted cash flows. Factors that are considered and which could lead to an impairment include significant changes in the manner of use of the asset or the overall strategy of the Corporation.

An impairment charge, measured at an amount equal to the excess of the carrying value over fair value, is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows.

f) 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 Supplementary Retirement Plan 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 market interest rates, as at the measurement date, for high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the average remaining service life of active employees. Transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

Financial Information

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation provides retention incentives to employees through a Long-Term Incentive Plan (LTIP) and a Restricted Fund Unit Plan (RFU). The value of these awards, which fluctuates over the vesting period based on achievement of certain performance factors, is expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the awards is re-measured at each reporting period based on changes in the intrinsic values of the awards, such that the cumulative amount of the liability will equal the expected payout at that date. Any gains or losses on re-measurement are recorded in the statement of operations. For any forfeiture of the awards, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

g) Financial Instruments

The Corporation has made the following classification of its financial assets and liabilities:

- Cash is classified as “Held for Trading” and is measured at fair value.
- Accounts receivable are classified as “Loans and Receivables” and are measured at amortized cost using the effective interest method, which approximates fair value due to their short term to maturity.
- Accounts payable and accrued liabilities, accrued vacation and benefits, and advance from the Province of Alberta are classified as “Other Financial Liabilities” and are measured at amortized cost using the effective interest method, which approximates fair value due to their short term to maturity.

NOTE 4 CASH AND CASH EQUIVALENTS

as at March 31, 2011 ($ thousands)	2011	2010
Deposit in Consolidated Cash Investment Trust Fund	$ 19,558	$ 25,933
Cash in U.S. bank account	49	494
	$ 19,607	$ 26,427

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 comprises high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2011, securities held by the Fund have a time-weighted return of 1.1% per annum (2010 – 1.0% per annum).

NOTE 5 CAPITAL ASSETS

as at March 31, 2011 ($ thousands)	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 18,750	$ 10,851	$ 7,899	$ 3,818
Computer hardware and software under development	10,017	-	10,017	8,315
Leasehold improvements	11,995	1,268	10,727	10,876
Equipment	4,132	430	3,702	3,739
	$ 44,894	$ 12,549	$ 32,345	$ 26,748

Included in capital asset is computer hardware and software of $10,017 (2010 - $8,315) that is under development and not subject to amortization.

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

as at March 31, 2011 ($ thousands)	2011	2010
Annual incentive plan(1)	$ 14,781	$ 9,827
Other accounts payable and accrued liabilities	4,171	11,872
	$ 18,952	$ 21,699

(1) 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 discretionary awards.

NOTE 7 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 542/2007 and in accordance with a loan advance agreement, the Corporation received advances on both January 1, 2008 and April 1, 2008 from the Province of Alberta to fund operating and capital cost requirements. As at March 31, 2011, the outstanding advance totalled $28,249 (2010 - $28,249).

The advance is a revolving demand credit facility up to a maximum of $30,000. 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. At March 31, 2011, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 8 LONG-TERM EMPLOYEE BENEFITS

as at March 31, 2011 ($ thousands)	2011	2010
Long-term incentive plan	$ 6,745	$ 2,009
Restricted fund unit incentive plan	481	402
Unfunded net retirement obligation from SRP plan	2,647	2,483
	$ 9,873	$ 4,894

a) Long-Term Incentive Plan

The Corporation provides retention incentives to employees through an LTIP and an RFU plan. The LTIP program promises a deferred reward for generating superior average net incremental return from active management ("value-added") over a four-year period. Senior management and other key professionals of the Corporation receive LTIP grants on January 1 of each year that vary in size with their level of responsibility and quality of past performance. The first of these grants, issued on January 1, 2009, will vest on December 31, 2012 with grants being issued annually thereafter. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they mature after four years, they will pay between zero and three times the size of the grant. The maximum amount will be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. For each of 2009 through 2011, the stretch target is $500,000.

The accrued LTIP liability as at March 31, 2011 of $6,745 (2010 - $2,099) reflects the potential value of all LTIP, based on actual results to that date from the date they were awarded.

NOTE 8 LONG-TERM EMPLOYEE BENEFITS (continued)

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

as at March 31, 2011	**2011**	**2010**
LTIP grants outstanding, beginning of year	9,460	4,453
Granted	5,635	5,222
Redeemed / forfeited	(620)	(215)
LTIP grants oustanding, end of year	14,475	9,460

The maximum potential obligation related to the LTIP as at March 31, 2011 was $43,425 (2010 - $28,380). Total expense related to the LTIP for the year ended March 31, 2011 was $4,740 (2010 - $1,723) which was recorded in salaries, wages and benefits.

b) 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 RFU(s). RFU(s) 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, 2011 of $481 (2010 - $402) reflects the potential value of all RFU, based on actual results to that date from the date they were awarded.

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

as at March 31, 2011	**2011**	**2010**
RFU grants outstanding, beginning of year	630	630
Granted	15	-
Redeemed / forfeited	(140)	-
RFU grants oustanding, end of year	505	630

Total expense related to the RFU plan for the year ended March 31, 2011 was $231 (2010 - $321) which was recorded in salaries, wages and benefits.

c) Supplementary Retirement Plan

On January 1, 2010, the Corporation established a new SRP for those individuals required to withdraw from the existing Supplementary Retirement Plan for Public Service Managers. Based on an actuarial report dated January 1, 2010, the Corporation assumed an opening net obligation of $2,306 representing past service costs of which $1,740 was expensed during the year ended March 31, 2010 and $566 was expensed during the year ended March 31, 2009.

NOTE 8 LONG-TERM EMPLOYEE BENEFITS (continued)

Information about the Corporation's SRP is as follows:

as at March 31, 2011 ($ thousands)	2011	2010
Accrued retirement obligation		
Beginning of year	$ 2,483	$ 566
Current service cost	389	150
Interest cost	129	27
Prior service costs arising from plan initiation	-	1,740
Actuarial gain resulting from changes in actuarial assumptions	(1,372)	-
End of year	1,629	2,483
Plan assets		
Fair value, beginning of year	$ -	$ -
Employer contributions	177	-
Employee contributions	177	-
End of year	354	-
Funded status - plan deficit	(1,275)	(2,483)
Unamortized net actuarial gain	(1,372)	-
Reported liability	$ (2,647)	$ (2,483)
Current service cost	$ 389	$ 150
Interest cost	129	27
Prior service cost amortization	-	1,740
Less: employee contributions	(177)	-
Total SRP expense	$ 341	$ 1,917

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. The next required actuarial valuation for funding purposes will be March 31, 2013.

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

as at March 31	2011
Equity securities	0%
Debt securities	0%
Other	100%

Financial Information

NOTE 8 LONG-TERM EMPLOYEE BENEFITS (continued)

The following table presents key assumptions applicable to the SRP:

as at March 31, 2011	2011	2010
Annual discount rate	4.5%	4.5%
Annual salary increase - base	3.0%	3.5%
Annual salary increase - merit and promotion	-	1.3%
Expected long-term return on plan assets	6.0%	6.0%
Inflation rate	2.0%	2.5%

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 $449 as at March 31, 2011. A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $1,214 as at March 31, 2011. A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $127 as at March 31, 2011.

d) Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan, and two multi-employer Long-Term Disability Income Continuance plans. The Corporation also participates in a defined contribution pension plan and a defined contribution supplementary retirement plan, established for employees hired after the formation of the Corporation on January 1, 2008.

The Corporation's expense for the pension and disability plans was equivalent to the annual contributions of $2,758 for the year ended March 31, 2011 (2010 - $2,562) which was recorded in salaries, wages and benefits.

At December 31, 2010, the Management Employees Pension Plan reported a deficiency of $397,087 (2009 - $483,199) and the Public Service Pension Plan reported a deficiency of $2,067,151 (2009 - $1,729,196).

NOTE 9 SHAREHOLDER'S EQUITY

a) Share Capital

as at March 31, 2011 ($ thousands)	2011	2010
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

b) Contributed Surplus

Contributed surplus of $3,647 (2010 - $3,647) represents equity received by the Department of Finance and Enterprise in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

NOTE 10 EXTERNAL INVESTMENT COSTS

for the year ended March 31, 2011 ($ thousands)	2011	2010
External investment management fees	$ 116,726	$ 126,061
External performance fees	19,096	25,690
Asset administration, legal, and other expenses	35,333	17,526
	$ 171,155	$ 169,277

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. The estimates are based upon specified rates and commitment levels in the investment management agreements. Actual results could differ from these estimates.

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, 2011 ($ thousands)	2011	2010
(Increase) decrease in accounts receivable	$ (2,028)	$ 128
Increase in prepaid expenses	(532)	(476)
(Decrease) increase in accounts payable and accrued liabilities	(2,747)	13,047
Decrease in accrued vacation and benefits	(179)	(112)
	$ (5,486)	$ 12,587

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, 2011 assets under administration totalled approximately $68.8 billion (2010 - $70.7 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

as at March 31, 2011 ($ thousands)	2011	2010
Pension plans	$ 31,436,597	$ 27,652,448
Ministry of Finance and Enterprise		
General revenue and entity investment funds (1)	14,267,483	20,713,819
Endowment funds (including the Alberta Heritage Savings Trust Fund)	18,332,498	17,133,500
Insurance-related funds	2,415,934	2,186,113
Other government ministry investment funds	2,348,256	3,042,063
	$ 68,800,768	$ 70,727,943

(1) General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance and Enterprise

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.

Financial Information

NOTE 12 ASSETS UNDER ADMINISTRATION (continued)

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

as at March 31, 2011 ($ thousands)	2011	2010
Fixed income		
Fixed income [(1)]	$ 29,318,810	$ 35,588,666
Private mortgages	2,261,523	2,090,276
Inflation sensitive		
Real estate	5,579,575	4,650,792
Infrastructure and timber	2,452,871	1,729,492
Real return bonds and commodities	1,977,405	1,691,637
Equities		
Public equities and absolute return strategies	24,774,440	23,411,199
Private equity	1,930,208	1,451,946
Overlays	505,936	113,935
	$ 68,800,768	$ 70,727,943

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

NOTE 13 CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

a) CAPITAL MANAGEMENT

In the definition of capital, the Corporation includes shareholder's equity, advance from the Province of Alberta and the un-drawn portion of the advance from the Province of Alberta. The primary objective of capital management is to ensure the Corporation has sufficient capital to support its business and achieve its strategic goals. The Corporation operates on a cost-recovery basis and manages its capital to fund operating and capital costs to achieve its strategic plans and offset cost-recovery timing differences. The Corporation is an agent of the Crown whose debt is fully guaranteed by the Province of Alberta, which has provided the Corporation with an advance to fund operating and capital costs.

b) FINANCIAL INSTRUMENTS

The Corporation's financial instruments are exposed to certain financial risks including credit risk, liquidity risk and market risk.

Credit Risk
Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Corporation's accounts receivable from clients. The Corporation's clients are government funds, pension plans and other entities, and as such, credit risk exposure is limited.

Liquidity Risk
Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they become due. The Corporation is an agent of the Crown and has established a credit facility with the Province of Alberta to fund operating and capital requirements.

Market Risk
Market risk is the risk that changes in market prices, such as foreign currency and interest rates, will affect the Corporation's earnings or the value of the financial instruments held. *Foreign currency risk* is the risk that the fair value of future cash flows for financial instruments will fluctuate relative to the Canadian dollar. *Interest rate risk* is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation operates on a cost-recovery basis. Interest rate risk arises primarily from fluctuations in the interest rate on the advance from the Province of Alberta and foreign currency risk from fluctuations in the value of the Corporation's US dollar bank account. As a result, exposure to foreign currency risk and interest rate risk is limited.

NOTE 14 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans and other entities for which the Corporation provides investment management services. The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

for the year ended March 31, 2011 ($ thousands)	2011	2010
Revenues		
Cost recoveries	$ 76,680	$ 59,406
Expenses		
Interest on advance from Province of Alberta	195	$ 65
Contracted services (rent and other)	561	1,610
	756	$ 1,675
Assets		
Accounts receivable	13,880	$ 12,196
Liabilities		
Accounts payable	577	$ 5,403
Advance from Province of Alberta	28,249	28,249
	28,826	$ 33,652

NOTE 15 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain and motivate top performers. Base salaries are market driven and variable compensation programs reward consistent value-added performance.

The tables below present total compensation of the directors and senior management of the Corporation earned in the year ended March 31, 2011 in accordance with Treasury Board directive 03/2007. This directive applies to all departments, regulated funds, provincial agencies and Crown-controlled organizations.

for the year ended March 31, 2011 ($ thousands)					2011	2010
	Base Salary(1)	**Variable Pay**(2)	**Other Cash Benefits**(3)	**Other Non-Cash Benefits**(4)	**Total**	Total
Chairman of the Board(5)	$ -	$ -	$ 93	$ -	**$ 93**	$ 108
Board Members(5)	-	-	385	-	**385**	435
Chief Executive Officer(6)	500	900	18	70	**1,488**	1,069
Chief Investment Officer(7)	-	-	-	-	**-**	242
Chief Operating Officer	265	466	55	41	**827**	633
Chief Financial Officer	250	129	1	32	**412**	343
Chief Risk Officer	225	189	1	43	**458**	437
Senior Vice President, Fixed Income Investments	265	394	1	46	**706**	632
Senior Vice President, Public Equities	265	466	-	39	**770**	647

(1) Base Salary consists of all regular pensionable base pay earned.
(2) Variable Pay comprises the Annual Incentive Plan and is accrued based on goal attainment for the calendar year end and paid in the subsequent period.
(3) Other Cash Benefits consist of LTIP and RFU paid in the year, retainers, honoraria, lump sum payments, and any other direct cash remuneration.
(4) 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.
(5) Since December 2009, the Board has consisted of 10 independent members including the Chairman, whose compensation is disclosed separately. From July 2009 to November 2009, the Board consisted of 11 independent members including the Chairman and the Deputy Minister of Finance and Enterprise. The Deputy Minister of Finance and Enterprise was a Board member and received no compensation from the Corporation during this time.
(6) The Chief Executive Officer also served in the role of Chief Investment Officer from July 1, 2009.
(7) The Chief Investment Officer announced his retirement on March 31, 2009 and his last day with the Corporation was June 30, 2009.

Notes to the Financial Statements, continued

NOTE 15 SALARIES AND BENEFITS DISCLOSURE (continued)

Deferred Long-Term Incentive Compensation
for the year ended March 31, 2011 ($ thousands)

			2011	2010
	LTIP Grant	RFU Grant	Total	Total
Chief Executive Officer	500	-	**500**	500
Chief Investment Officer	-	-	**-**	362
Chief Operating Officer	260	-	**260**	239
Chief Financial Officer	-	-	**-**	100
Chief Risk Officer	169	-	**169**	169
Senior Vice President, Fixed Income Investments	239	-	**239**	239
Senior Vice President, Public Equities	239	-	**239**	239

The Corporation provides retention incentives to employees through an LTIP and an RFU plan as described in Note 8. LTIP and RFU grants have not been included in the Salaries and Benefits table because they have an initial cash value of zero. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments. When LTIP grants mature after four years, they will pay between zero and three times the size of the grant. The maximum amount will be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. For each of the years 2009 through 2011, the stretch target is $500 million. RFU(s) have time horizons of one to three years for vesting provisions. The value of the RFU grant fluctuates based on the total rate of return on assets under investment from the date they were awarded.

NOTE 16 COMMITMENTS

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

($ thousands)	
2012	4,119
2013	4,271
2014	3,967
2015	3,588
2016	3,588
Thereafter	10,763
Total	30,296

The Corporation entered into a lease agreement for a new facility commencing January 1, 2010. 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 $6,768. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease. The total deferred lease inducement as at March 31, 2011, which includes the Corporation's offices in Toronto, is $6,050 (2010 – $6,766).

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, 2011 the balance outstanding against the facility is $12,878 (2010 - $10,210).

NOTE 17 2010-2011 BUDGET

The Corporation's budget for the year ended March 31, 2011 was approved by the Board of Directors on January 29, 2010.

NOTE 18 COMPARATIVE FIGURES

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

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December 31, 2010

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AUDITOR GENERAL Alberta

Independent Auditor's Report

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Local Authorities Pension Plan Corp. (the Corporation), which comprise the balance sheet as at December 31, 2010, and the statement of 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 Canadian generally accepted accounting principles, 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, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

April 15, 2011

Edmonton, Alberta

Balance Sheet

As at December 31, 2010

	(thousands) 2010	2009
Assets		
Cash	$ 84	$ 186
Accounts receivable	2	1
Due from LAPP (Note 5)	79	43
	165	230
Liabilities and Shareholder's Equity		
Liabilities		
Accrued liabilities	$ 165	$ 230
	165	230
Shareholder's equity		
Share capital (Note 4)	-	-
	$ 165	$ 230

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by:

Larry Murray
Chair of the Board

Original signed by:

Chris Good
Audit Committee Chair

Approved by Management:

Original signed by:

Meryl Whittaker
President & CEO

Statement of Income

For the year ended December 31, 2010

(thousands)

	Budget 2010 (Note 10)	Actual 2010	Actual 2009
Revenue			
Service revenue (Note 5)	$ 2,838	$ 2,358	$ 2,458
Miscellaneous revenue		2	2
Total revenue	2,838	2,360	2,460
Operating costs			
Salaries and benefits	1,033	797	890
Professional fees	569	398	373
Stakeholder Relations & Communication	397	251	362
Board costs	317	313	411
Actuarial services	257	372	254
General and administrative	265	229	170
Total operating costs	2,838	2,360	2,460
Net income for the year	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2010

		(thousands)
	2010	2009
Operating activities		
Net income	$ -	$ -
Changes in non-cash working capital		
(Increase) decrease in accounts receivable	(1)	3
Increase (decrease) in accrued liabilities	(65)	103
Decrease in deferred revenue	-	2
Decrease (Increase) in amount due from LAPP	(36)	21
(Decrease) increase in cash for the year	(102)	129
Cash at beginning of year	186	57
Cash at end of year	$ 84	$ 186

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

December 31, 2010

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 Act*, 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. Accounting policies

Basis of Presentation

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

Changes in Accounting Policies

Recent Accounting Pronouncements

The Corporation will adopt Public Sector Accounting Standards for its fiscal year commencing January 1, 2011 and has determined this transition will not have a significant impact on its financial statements.

All revenues are reported on the accrual basis of accounting. Revenue for future expenses received in advance is recorded as deferred revenue.

4. Share capital

	2010	2009
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

5. Service revenue / Due from LAPP

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

6. Financial instruments

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

7. Commitments

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

	(thousands)
2011	191
2012	196
2013	202
2014	209
	$ 798

Financial Information

8. Salaries and benefits disclosure

(thousands)

		2010				2009
		Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Corporation Board Chair	[d]	$ -	$ 18	$ -	$ 18	$ 39
Corporation Board Members (excluding Chair)	[d]	-	160	-	160	133
President & Chief Executive Officer	[e]	190	49	46	285	257
Vice-Presidents:						
Investments	[f]	61	20	3	84	-
Policy and Research	[g]	75	5	17	97	206
Stakeholder Relations	[h]	91	-	22	113	-

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts, car allowance and 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) In 2009, this position was held for ten months, vacant for two months.

(f) This is a new 0.6 FTE position vacant five months in 2010.

(g) This is a new full-time position vacant five months in 2010, replacing the previous VP, Policy and Legal position which included Acting CEO salary in 2009.

(h) This is a new full-time position vacant three months in 2010, replacing the previous Communications Manager.

9. Defined benefit plans
(thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $83 for the year ended December 31, 2010.

At December 31, 2010, the Management Employees Pension Plan reported a deficiency of $397,087 (2009: $483,199) and the Public Service Pension Plan reported a deficiency of $2,067,151 (2009: $1,729,196). At December 31, 2010, the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $39,609 (2009: $39,516).

10. Approval of 2010 budget

The 2010 budget was approved by the Corporation's Board of Directors on October 23, 2009 and by the Minister of Finance and Enterprise on January 6, 2010.

11. Financial statement approval

The financial statements were approved by the Corporation's Board of Directors.

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ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

Year Ended December 31, 2010

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These Alberta Pensions Services Corporation (APS) Financial Statements are a copy from the APS 2010 Annual Report. A complete copy of the APS Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the APS website at www.aps.ca.

Independent Auditor's Report

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Pensions Services Corporation, which comprise the balance sheet as at December 31, 2010, and the statements of income and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

April 13, 2011

Edmonton, Alberta

Balance Sheet

As at December 31, 2010

(thousand of dollars)

	2010 $	2009 $
ASSETS		
Cash	210	51
Accounts receivable	179	2,530
Prepaid expenses	929	505
Due from pension plans (Note 8)	7,358	1,989
Computer systems and other assets (Note 4)	7,450	8,770
	16,126	13,845
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable and accrued liabilities	3,831	1,803
Accrued salaries and benefits	3,035	1,288
Accrued vacation pay	204	191
Deferred lease inducement (Note 12)	1,606	1,793
Deferred capital contributions (Note 4)	7,450	8,770
	16,126	13,845
Shareholder's equity		
Share capital (Note 5)	-	-
	16,126	13,845

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:

Douglas Hollands, BComm, CA
Chair
Audit Committee

Financial Information

Statement of Income

For the year ended December 31, 2010

(thousand of dollars)

	BUDGET 2010 $	ACTUAL 2010 $	ACTUAL 2009 $
OPERATING EXPENSES	(Note 14)		
Staff and related expenses	27,506	25,692	22,320
Contract services	7,132	7,297	4,236
Materials and supplies	4,703	5,090	3,638
Amortization	2,899	2,906	2,045
Data processing and maintenance	1,665	1,729	1,329
Total before Plan specific and Employer specific services	43,905	42,714	33,568
Plan specific (Note 6)	1,799	1,057	1,079
Employer specific services (Note 7)	13	15	22
Total operating expenses	45,717	43,786	34,669
Recovery of costs (Note 8)	45,717	43,786	34,669

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

Statement of Cash Flows

For the year ended December 31, 2010

(thousand of dollars)

	2010	2009
	$	$
OPERATING ACTIVITIES		
Items not affecting cash:		
Amortization	2,906	2,045
(Decrease) increase in deferred lease inducement (Note 12)	(187)	1,793
Decrease in deferred capital contributions	(2,906)	(2,045)
	(187)	1,793
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	2,351	(2,468)
(Increase) decrease in prepaid expenses	(424)	210
(Increase) decrease in due from pension plans	(5,369)	1,566
Increase (decrease) in accounts payable and accrued liabilities	2,028	(1,180)
Increase in accrued salaries and benefits	1,747	126
Increase (decrease) in accrued vacation pay	13	(48)
	346	(1,794)
	159	(1)
Investing activities		
Acquisition of computer systems and other assets	(1,586)	(7,346)
Financing activities		
Increase in deferred capital contributions	1,586	7,346
Increase (decrease) in cash for the year	159	(1)
Cash at beginning of year	51	52
Cash at end of year	210	51

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

Notes to the Financial Statements

1. AUTHORITY

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act*, Chapter B-9, *Revised Statutes of Alberta 2000*. The issued share of the Corporation is owned by the Minister of Finance and Enterprise (the "Minister") on behalf of the Government of Alberta, and accordingly the Corporation is exempt from income and other taxes.

2. NATURE OF OPERATIONS

The Minister of Finance and Enterprise, 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)
- Members of the Legislative Assembly Pension Plan (MLAPP)
- Supplementary Retirement Plan for Public Service Managers (MSRP)

The Minister of Finance and Enterprise, operating under the authority of the *Provincial Court Act* and *Court of Queen's Bench Act* (Chapter 196, Regulation 2001) is responsible for administering the following public sector pension plans:

- Provincial Judges and Masters In Chambers (Registered) Pension Plan (PJMC(R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

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, 2011. 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 generally accepted accounting principles (GAAP).

Computer Systems and Other Assets

Computer systems and other 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:

Computer hardware	3 years
Computer software	3 years
Furniture and equipment	5 years
Telephone system	3 years
Leasehold improvements	Refer to (a) below

(a) This is over the term of lease plus one optional renewal period, to a maximum of five years.

Amortization will commence the month immediately after the computer systems and other assets has been deemed substantially complete and ready for productive use.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP 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 computer systems and other assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Changes in Accounting Policies

Recent Accounting Pronouncements

The Canadian Accounting Standards Board confirmed that the changeover date for adoption of International Financial Reporting Standards (IFRS) for publicly accountable services will be January 1, 2011. In October 2009, the Public Sector Accounting Board amended the requirements for government organizations to adopt IFRS and finalized those amendments in April 2010. The amendments require government organizations not classified as a Government Business Enterprise to adopt CICA Public Sector Accounting Standards. A Government Business Enterprise has self-sustaining commercial-type operations. The Corporation is not classified by the Government of Alberta's Treasury Board as a Government Business Enterprise and therefore is required to adopt CICA Public Sector Accounting Standards. The Corporation will adopt Public Sector Accounting Standards for its fiscal year commencing January 1, 2011 and has determined this transition will not have a significant impact on its financial statements.

4. COMPUTER SYSTEMS AND OTHER ASSETS

($ thousands)

	2010			2009
	Cost **$**	**Accumulated Amortization** **$**	**Net Book Value** **$**	**Net Book Value** **$**
Leasehold improvements	7,529	3,205	4,324	5,539
Computer hardware	6,318	4,420	1,898	1,309
Furniture and equipment	1,357	607	750	980
Telephone system	386	91	295	200
Computer software	12,498	12,315	183	742
	28,088	**20,638**	**7,450**	**8,770**

Financing obtained from the public sector pension plans to acquire computer systems and other assets is recorded as deferred capital contributions. The recovery of costs is recognized on the same basis as the acquired computer systems and other assets are amortized.

5. SHARE CAPITAL

	2010 **$**	**2009** **$**
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	1	1

6. PLAN SPECIFIC

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:

($ thousands)

	2010				2009
	Contract Services $	**Materials and Supplies $**	**Board Remuneration $**	**Total $**	**Total $**
MEPP	151	107	21	279	382
SFPP	215	61	30	306	300
PSPP	300	111	-	411	290
MSRP	22	6	-	28	47
PJMC(R)PP	17	2	-	19	29
PSM(CM)PP	-	14	-	14	24
MLAPP	-	-	-	-	10
PJMC(U)PP	-	-	-	-	(3)
TOTAL	**705**	**301**	**51**	**1,057**	**1,079**

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

7. EMPLOYER SPECIFIC SERVICES

In 2008, the Minister of Finance and Enterprise 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:

($ thousands)

	2010	2009
	$	$
City of Calgary	7	9
City of Edmonton	3	6
EPCOR	3	2
Government of Alberta	2	2
Legislative Assembly	-	1
Calgary Health Region	-	1
Telus	-	1
Total	**15**	**22**

8. RECOVERY OF COSTS

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 of Finance and Enterprise. The current allocation formula was effective January 1, 2010. At December 31, 2010, $7,358 (2009 - $1,989) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

($ thousands)

	2010 Total $	**2009 Total $**
LAPP	27,861	21,776
PSPP	11,584	9,180
MEPP	1,770	1,526
SFPP	1,445	1,197
MSRP	525	414
PSM(CM)PP	331	294
PJMC(R)PP	95	114
PJMC(U)PP	80	72
MLAPP	50	62
	43,741	**34,635**
Interest and other miscellaneous cost recoveries	30	12
Employer specific services (Note 7)	15	22
Recovery of costs	**43,786**	**34,669**

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

9. EMPLOYEE FUTURE BENEFITS

($ thousands)

The Corporation participates in three multi-employer, defined benefit public sector pension plans, the Public Service Pension Plan, the Management Employees Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The Trustee of the plans is the Minister of Finance and Enterprise. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of $2,207 for the year ended December 31, 2010 (2009: $1,688). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. The latest valuation at December 31, 2009 indicated the Public Service Pension Plan had a deficiency of $1,729,196 (2008 - $1,187,538) and the Management Employees Pension Plan had a deficiency of $483,199 (2008 - $568,574). At December 31, 2009, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $39,516 (2008 - $7,111).

10. RELATED PARTY TRANSACTIONS

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

($ thousands)

	2010 $	2009 $
Service Alberta - Data processing, postage and printing	1,101	855
Alberta Finance and Enterprise - Risk management and insurance	46	39
University of Alberta - Management training	22	81
Alberta Infrastructure - Parking rental	-	6
	1,169	981

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 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 2010 annual report.

12. COMMITMENTS

The Corporation has entered into an agreement with minimum annual commitments for office space as follows:

	($ thousands)
	Total Commitment
	$
2011	1,729
2012	1,729
2013	1,729
2014	1,792
2015	1,916
Thereafter	7,026
	15,921

The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for ten 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 ten-year term of the lease.

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. 2010 BUDGET

The Corporation's 2010 budget was approved by the Board of Directors on November 18, 2009.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's Board of Directors.

ALBERTA SECURITIES COMMISION

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Members of the Alberta Securities Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the balance sheet as at March 31, 2011, and the statements of operations and retained earnings 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, 2011, 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, CA]

Auditor General

June 8, 2011

Edmonton, Alberta

Balance Sheet

As at March 31

(thousand of dollars)

	($ thousands)	
	2011	**2010**
ASSETS		
Current		
Cash (Note 4)	$ 9,114	$ 11,343
Accounts receivable	129	148
Prepaid expenses	112	330
	9,355	11,821
Non-current		
Restricted cash (Note 3)	-	280
Investments (Note 4)	28,238	30,749
Capital assets (Note 6)	9,991	2,028
Penalties receivable	11	17
	38,240	33,074
Total assets	$ 47,595	$ 44,895
LIABILITIES AND RETAINED EARNINGS		
Current		
Accounts payable and accrued liabilities	$ 4,084	$ 2,824
Accrued vacation and benefit liabilities	501	393
Lease inducement (Note 7)	219	124
	4,804	3,341
Non-current		
Lease inducement (Note 7)	2,994	-
Accrued benefit liability (Note 8)	4,351	3,782
Total liabilities	12,149	7,123
Retained earnings (Note 3)	35,446	37,772
Total liabilities and retained earnings	$ 47,595	$ 44,895

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

Approved by the Members

William S. Rice, Q.C.
Chair and Chief Executive Officer

Roderick J. McKay, FCA
Member

Statement of Operations and Retained Earnings

Years ended March 31

	2011 Budget (Note 11)	2011 Actual	2010 Actual
	($ thousands)		
Revenue			
Fees (Note 9)	$ 25,899	$ 26,468	$ 25,744
Investment Income (Note 5)	1,355	2,557	3,930
Settlement payments and cost recoveries (Note 9)	-	801	2,499
Conference fees and other	-	35	18
Administrative penalties (Note 3)	600	226	542
Total revenue	27,854	30,087	32,733
Expense			
Salaries and benefits	22,695	21,719	19,501
Premises	3,120	3,051	2,170
Professional services	3,246	2,926	2,591
Administration	3,473	2,781	2,468
Amortization	1,549	1,320	1,193
Investor education (Note 3)	612	616	469
Total expense	34,695	32,413	28,392
Budget contingency	1,805		
Net (loss) income	$ (8,646)	(2,326)	4,341
Opening retained earnings		37,772	33,431
Closing retained earnings (Note 3)		$ 35,446	$ 37,772

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

Statement of Cash Flows

Years ended March 31

	($ thousands) 2011	2010
Operating transactions		
Fees and other	$ 26,486	$ 25,790
Settlement payments and cost recoveries	801	2,499
Payments to and on behalf of employees	(21,012)	(18,735)
Payments to suppliers for goods and services	(8,698)	(7,911)
Investment income	2,557	3,930
Administrative penalties	274	506
Cash from operating transactions	408	6,079
Capital transactions		
Cash used to acquire capital assets	(8,720)	(911)
Cash from lease inducement	3,286	-
Proceeds on disposal	6	-
Cash used in capital transactions	(5,428)	(911)
Investing transactions		
Decrease (increase) in restricted cash	280	(90)
Increase in portfolio investments	(2,489)	(3,863)
Transfer from portfolio investments	5,000	1,940
Cash received from (used in) investing transactions	2,791	(2,013)
(Decrease) increase in cash	(2,229)	3,155
Opening cash	11,343	8,188
Closing cash	$ 9,114	$ 11,343

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

Notes to the Financial Statements

March 31

($ thousands)

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws.

The ASC's investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance and Enterprise. AIMCo invests the Commission's assets in pooled investment funds in accordance with the investment policy asset mix approved by the Commission. The ASC does not participate in capital market investment decisions or transactions.

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (a), (b) and (c).

a) INVESTMENTS

Fixed income securities and equities are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Derivative contracts not designated as hedges are recorded at fair value.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

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.

b) INVESTMENT INCOME AND EXPENSES

Investment income and investment expense are recorded on the accrual basis. Investment income is accrued where there is reasonable assurance as to its measurement and collectibility.

Gains and losses arising as a result of disposal of investments are included in the determination of investment income.

Income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

c) VALUATION OF INVESTMENTS

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

i) Public fixed income securities and equities are valued at the year-end closing sale price, or, if not actively traded, the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. The value of derivative contracts is included in the fair value of the ASC's investment in the Canadian Dollar Public Bond Pool and certain equity funds (Note 4). The fair value of derivative contracts is determined at the reporting date.

d) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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

e) CAPITAL ASSETS

Capital assets are recorded at cost.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leaseholds	over 15- year lease term commencing December 2010

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

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

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

g) 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 comprise 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 benefit 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.

Notes to the Financial Statements, continued

h) LEASE INDUCEMENT

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

i) ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include uncollectible amounts of accounts receivable for administrative penalties and related cost recoveries, the useful lives of capital assets, and the value of accrued employee benefit liabilities. Actual results could differ from those estimates.

Estimates of capital asset useful lives are outlined in Note 6.

Benefit liability estimates are primarily subject to actuarial assumptions summarized in Note 8.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. However, it is not possible to estimate what, if any, subsequent recoveries may occur.

j) 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.

NOTE 3 RESTRICTED CASH AND RETAINED EARNINGS

Retained earnings include $0 accumulated net penalty revenues ($280 in F2010) because eligible expenditures exceeded accumulated penalty revenues. The F2010 amount was represented by restricted cash, as described in Note 2(j).

The change in restricted cash is comprised of:

	2011	2010
Administrative penalties	$ 6,671	$ 1,190
Less provision for uncollectible amounts	(6,670)	(1,075)
Plus recoveries of prior year assessments	222	425
Net realizable value	223	540
Interest income and other	3	2
Administrative penalty revenue	226	542
Plus: Education seminar fees	34	17
Less: Eligible education expenses	(616)	(469)
Plus: Eligible expenses funded from operations	76	-
Restricted cash (decrease) increase	(280)	90
Restricted cash opening balance	280	190
Restricted cash closing balance	$ -	$ 280

NOTE 4 CASH AND INVESTMENTS

a) SUMMARY

	2011			2010		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	$ 9,114	$ 9,114		$ 11,343	$11,343	
Investments						
Deposit in the CCITF	$ 75	$ 75	0.2	$ 74	$ 74	0.2
Fixed-income securities	21,041	20,823	71.9	22,564	22,267	72.1
Equities	7,122	8,080	27.9	8,111	8,539	27.7
	$ 28,238	$28,978	100.0	$ 30,749	$30,880	100.0

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF portfolio comprises high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2011, securities held by the CCITF have a time weighted return of 1.1 per cent per annum (1.0 per cent in F2010).

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, 2011 have maturities ranging from less than one year to over 20 years and an average duration of 5.76 years. The fixed income pool includes a mix of high-quality government and corporate (public and private) fixed income securities and debt related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

b) INVESTMENT RISK MANAGEMENT

Income and financial returns of the ASC are exposed to credit, market and interest rate risk.

AIMCo manages risk through diversification within each asset class, and quality and duration constraints on fixed income instruments, and extensive use of derivative contracts. ASC's investments include derivatives as described in the annual MD&A.

In order to earn an optimal financial return at an acceptable level of risk, management has established an investment policy that is reviewed annually. Investment income risk is reduced through asset class allocation targets of 75 per cent fixed income securities and 25 per cent equities with a small value of residual cash.

NOTE 5 INVESTMENT INCOME

The ASC's investment income included $1,546 from interest bearing securities ($1,388 in F2010) and $1,011 from equities ($2,542 in F2010).

The ASC's investments increased in market value 10.6 per cent for the year ended March 31, 2011 (20.9 per cent in F2010). This performance compares to a benchmark (composite of DEX T-Bill, Bond and S&P/TSX indexes) gain of 9 per cent in F2011 and a benchmark gain of 13.9 per cent in F2010.

NOTE 6 CAPITAL ASSETS

	Computer equipment and software	Furniture and equipment	Leaseholds	2011 Total	2010 Total
Estimated useful life	3 years	10 years	Lease		
Cost					
Beginning of year	$ 2,820	$ 1,009	$ 4,332	$ 8,161	$ 7,912
Additions	1,847	1,761	5,681	9,289	916
Disposals	(504)	(446)	(3,906)	(4,856)	(667)
	$ 4,163	$ 2,324	$ 6,107	$ 12,594	$ 8,161
Accumulated amortization					
Beginning of year	$ 2,065	$ 652	$ 3,416	$ 6,133	$ 5,607
Amortization expense	529	135	623	1,287	1,193
Disposals	(504)	(407)	(3,906)	(4,817)	(667)
	$ 2,090	$ 380	$ 133	$ 2,603	$ 6,133
Net book value	$ 2,073	$ 1,944	$ 5,974	$ 9,991	$ 2,028

Leaseholds at March 31, 2011 are for a 15 year lease commencing December 1, 2010.

Leaseholds at March 31, 2010 included $426 for the current lease and the remainder for a lease that terminated March 31, 2011.

Disposals are a result of the December 2010 office relocation.

Amortization of $1,320 includes capital amortization of $1,287, plus a loss on disposal of $39 less proceeds on disposal of $6.

NOTE 7 LEASE INDUCEMENT

		2011	2010
Lease term			
15 years ending November 30, 2025	Current inducement	$219	
	Long-term inducement	$2,994	
8 years ending March 31, 2011	Current inducement		$124

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability is comprised of:

	2011	2010
Retirement Plan	$ 160	$ 184
Supplemental Pension Plan	4,274	3,681
Less: current portion	(83)	(83)
	$ 4,351	$ 3,782

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

	2011	2010
Public Service Pension Plan	$ 749	$ 550
Registered Retirement Savings Plan	489	446
Supplemental Pension Plan	653	551
	$ 1,891	$ 1,547

a) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2010, the Public Service Pension Plan reported a deficiency of $2,067,151 and in 2009 a deficiency of $1,729,196.

b) REGISTERED RETIREMENT SAVINGS PLAN

The ASC makes contributions on behalf of employees who do not participate in the Public Service Pension Plan to employee Registered Retirement Savings Plans.

c) RETIREMENT PLAN

The Retirement Plan is unfunded and the benefits will be paid to August 2017 ($24 in F2011, $24 in F2010) from the assets of the ASC.

d) SUPPLEMENTAL PENSION PLAN

The ASC has a Supplemental Pension Plan for certain designated executives of the ASC. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

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 ($125 effective January 1, 2011, and $122 effective January 1, 2010) imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the Commission. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

Actuarial valuations of the Supplemental Pension Plan are undertaken every three years. At April 1, 2009, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for April 1, 2012. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

Notes to the Financial Statements, continued

Balance sheet at March 31	**2011**	**2010**
Accrued benefit and unfunded obligation	$ 4,253	$ 3,676
Unamortized transitional obligation	(34)	(64)
Unamortized actuarial gain	55	69
Accrued benefit liability	$ 4,274	$ 3,681

Accrued benefit obligation		
Accrued benefit obligation at beginning of the year	$ 3,676	$ 3,192
Service cost	393	322
Interest cost	244	216
Benefits paid	(60)	(54)
Accrued benefit obligation at end of the year	$ 4,253	$ 3,676

Pension expense	**2011**	**2010**
The pension expense for the Supplmental Pension Plan is as follows:		
Service cost	$ 393	$ 322
Interest cost	244	216
Amortization of transitional obligation	30	29
Recognized actuarial gains during the year	(14)	(16)
	$ 653	$ 551

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount rate was established in accordance with the yield on long-term corporate bonds and applies to both the accrued benefit obligation and benefit costs. 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.

	2011	**2010**
Discount rate, year-end obligation	6.2%	6.2%
Discount rate, net benefit cost prior year	5.4%	5.4%
Rate of inflation	2.5%	2.5%
Salary increases	4.0%	4.0%
Remaining service life	5 years	5 years

NOTE 9 FEES, SETTLEMENT PAYMENTS AND COST RECOVERIES

	2011	2010
Distribution of securities	$ 10,954	$ 11,658
Registrations	10,210	9,082
Annual financial statements	5,014	4,686
Orders (applications)	290	318
Total fees	$ 26,468	$ 25,744
Settlement payments and cost recoveries	$ 1,278	$ 2,219
Less provision for uncollectible amounts	(480)	(139)
Plus recoveries of prior-year assessments	3	419
Total settlement payments and cost recoveries	$ 801	$ 2,499

NOTE 10 COMMITMENTS AND CONTINGENCIES

Details of commitments to organizations outside the ASC and contingencies from legal actions are set out below. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

a) COMMITMENTS

Premises lease and equipment rental - Commitments arising from contractual obligations are associated primarily with the lease of premises to March 31, 2025 and rental of office equipment to 2016 totalling $59,428 ($57,969 in F2010). A 15 year lease of premises commencing December 2010 was added in 2009. These commitments become expenses of the ASC when the terms of the contracts are met.

2011-12	$ 2,716
2012-13	2,786
2013-14	2,860
2014-15	2,940
2015-16	3,403
Thereafter	44,723
Total	$ 59,428

Canadian Securities Administrators (CSA) - 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.

Notes to the Financial Statements, continued

National systems operations agreements - CDS Inc. (CDS) operates the SEDAR (electronic filing and payment), NRD (national registration database) and SEDI (insider trading) systems on behalf of the CSA under various operating agreements. The ASC, as one of the agreement signatories, commits to pay CDS up to 11.7 per cent of any shortfall from approved system operating costs that exceed revenues. Alternatively, CDS must pay to CSA revenues in excess of system operating costs (surplus). The surplus is not divisible; the CSA owns it as a group. CDS payments received from accumulated system operating surpluses since inception and interest earned totalled $64,880 at March 31, 2011 ($49,135 in F2010). This amount is held in trust by the Ontario Securities Commission. The principal CSA administrators, including the ASC, have agreed that surplus amounts can only be used to offset any shortfall in revenues, develop or enhance the systems and reduce fees charged to users.The CSA is remediating these systems and has committed approximately $1,000 to commence this process, with expenditure to date of $673.

b) LEGAL ACTIONS

The ASC is not currently involved as a defendant in any legal actions.

NOTE 11 BUDGET

The ASC's budget was approved on January 13, 2010.

NOTE 12 RELATED-PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $58 ($35 in F2010) in administration expense.

Schedule of Salaries and Benefits

For the Year Ended March 31, 2011

Schedule A

($ thousands)

	2011				2010
	Base Salary (1)	Cash Benefits (2)	Non-cash Benefits (3)	Total	Total
Chair, Securities Commission (4)	$ 495	$ 83	$ 131	$ 709	$ 698
Executive Director	$ 323	$ 55	$ 144	$ 522	$ 515
Vice-Chair, Securities Commission (4)	$ 295	$ 45	$ 113	$ 453	$ 451
Vice-Chair, Securities Commission (4)	$ 295	$ 45	$ 85	$ 425	$ 407
Independent Members (5)	$ 532	-	-	$ 532	$ 561

1) Base salary includes regular base pay and Independent Member compensation.

2) Cash benefits include variable pay and Chair and Executive Director's automobile allowances.

3) Employer's share of all employee benefits including current and prior service cost for the unfunded supplemental pension plan for designated executives as described in Note 8(d) of the financial statements and summarized in the accounting narrative.

4) The Chair and Vice-Chairs are full-time Commission Members.

5) The Independent Members compensation includes fees paid in dollars for governance responsibilities of $294,000 ($342,000 in F2010) and hearing and application panel participation of $238,000 ($219,000 in F2010). Independent Member fees include a $10,000 annual retainer, $2,500 for Committee memberships, $5,000 for Committee chairing and $5,000 for the Lead Independent Member position. Meeting attendance fees include $1,000 per day for an ASC meeting and $750 for a Committee meeting. Hearing fees are payable as to $1,000 per hearing day and $125 per hour of related preparation, review and decision writing.

SCHEDULE OF SALARIES AND BENEFITS **Schedule A (continued)**

Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan as described in Note 8(d) of the ASC financial statements, executive officers may receive supplemental retirement payments. Supplemental Pension Plan costs, as detailed below for the four most highly paid executives of the ASC, are not cash payments in the period, but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The Supplemental Pension Plan provides future pension benefits to participants based on years of service and earnings as described in Note 8(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of expected inflation and salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

($ thousands)

	2011			2010
	Current Service Costs	Prior Service and Other	Total	Total
Chair, Securities Commission	$ 112	$ (9)	$ 103	$ 92
Executive Director	$ 93	$ 22	$ 115	$ 114
Vice-Chair, Securities Commission	$ 72	$ 11	$ 83	$ 79
Vice -Chair, Securities Commission	$ 54	$ 5	$ 59	$ 56

The accrued obligation for each of the four highest paid executives under the Supplemental Pension Plan is outlined in the following table:

($ thousands)

	Accrued Obligation April 1, 2010	Changes in Accrued Obligation	Accrued Obligation March 31, 2011
Chair, Securities Commission	$ 397	$ 82	$ 479
Executive Director	$ 683	$ 49	$ 732
Vice-Chair, Securities Commission	$ 530	$ 71	$ 601
Vice -Chair, Securities Commission	$ 256	$ 54	$ 310

Financial Information

Commercial Enterprises

Commercial Enterprises

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ATB FINANCIAL

Consolidated Financial Statements

Year Ended march 31, 2011

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These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2011 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 Minister of Finance and Enterprise

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Alberta Treasury Branches, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of income, comprehensive income and 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 Canadian generally accepted accounting principles, 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 Alberta Treasury Branches as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 25, 2011

Edmonton, Alberta

Consolidated Balance Sheet

As at March 31, 2011

($ in thousands)

As at March 31, 2011 *($ in thousands)*	2011	2010
Assets		
Cash resources *(note 8)*		
Cash	$ 161,901	$ 179,424
Interest-bearing deposits with financial institutions	1,123,779	675,576
	1,285,680	855,000
Securities *(note 9)*	2,058,878	1,158,900
Loans *(notes 10 and 11)*		
Residential mortgages	7,823,647	7,989,004
Business	9,139,082	8,722,605
Personal	5,589,507	5,446,028
Credit card	616,953	599,379
Allowance for credit losses	(226,005)	(222,413)
	22,943,184	22,534,603
Other		
Premises and equipment *(note 13)*	183,881	188,831
Derivative financial instruments *(note 20)*	271,886	226,509
Software and other intangibles *(note 14)*	297,008	201,767
Other assets *(note 15)*	347,546	263,408
	1,100,321	880,515
	$ 27,388,063	$ 25,429,018
Liabilities and equity		
Deposits *(note 16)*		
Personal	$ 10,559,937	$ 10,427,133
Business and other	10,422,053	9,544,040
Wholesale	3,000,155	2,607,994
	23,982,145	22,579,167
Other liabilities		
Securities sold under repurchase agreements	341,557	-
Derivative financial instruments *(note 20)*	254,411	146,892
Other liabilities *(note 17)*	547,798	623,432
	1,143,766	770,324
Capital investment notes *(note 28)*	230,972	224,994
Subordinated debentures *(note 18)*	67,467	45,176
Equity		
Retained earnings	1,975,739	1,777,223
Accumulated other comprehensive (loss) income *(note 24)*	(12,026)	32,134
	1,963,713	1,809,357
	$ 27,388,063	$ 25,429,018

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

Approved by the Board:

Original signed by:

Bob Slane
Chairman of the Board

Original signed by:

Doug Baker
Chairman of the Audit Committee

Consolidated Statement of Income

For the year ended March 31, 2011

($ in thousands)

For the year ended March 31, 2011 *($ in thousands)*	2011	2010
Interest income		
Loans	$ **1,051,644**	$ 987,545
Securities	**22,580**	14,051
Interest-bearing deposits with financial institutions	**12,453**	29,516
	1,086,677	1,031,112
Interest expense		
Deposits	**334,563**	348,203
Capital investment notes	**9,682**	5,432
Subordinated debentures	**2,537**	2,107
Securities sold under repurchase agreements	**1,183**	682
	347,965	356,424
Net interest income	**738,712**	674,688
Other income		
Service charges	**68,835**	70,900
Investor Services	**54,956**	42,340
Card fees	**51,809**	49,338
Securitization income *(note 12)*	**25,626**	18,273
Credit fees	**22,136**	20,157
Insurance	**14,647**	12,633
Foreign exchange	**8,406**	11,257
Gain (loss) on derivative financial instruments, net	**2,437**	(11,440)
Sundry	**2,426**	7,325
	251,278	220,783
Operating revenue before the undernoted	**989,990**	895,471
Recovery on asset-backed commercial paper *(note 9)*	**28,800**	537
Total operating revenue	**1,018,790**	896,008
Provision for credit losses *(note 11)*	**28,452**	58,947
Non-interest expenses		
Salaries and employee benefits *(notes 19 and 22)*	**400,704**	367,830
Data processing	**76,200**	72,594
Premises and occupancy, including amortization	**74,595**	72,229
Professional and consulting costs	**44,006**	32,927
Marketing and supplies	**30,949**	28,842
Deposit guarantee fee	**24,530**	23,706
Equipment, including amortization	**23,729**	19,110
Software and other intangibles amortization	**22,460**	21,952
Communication	**21,962**	19,994
ATB agencies	**8,218**	8,175
Other	**5,171**	4,157
	732,524	671,516
Net income before payment in lieu of tax	**257,814**	165,545
Payment in lieu of tax *(note 27)*	**59,298**	38,075
Net income	$ **198,516**	$ 127,470

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

Financial Information

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2011

($ in thousands)

For the year ended March 31, 2011 *($ in thousands)*	2011	2010
Net income	**$ 198,516**	$ 127,470
Other comprehensive loss		
Change in unrealized losses on available-for-sale securities and interest-bearing deposits with financial institutions, net of cash flow hedges	**(520)**	(6,593)
Reclassification to earnings in respect of available-for-sale securities and interest-bearing deposits with financial institutions	**-**	(3,882)
Changes in (losses) and gains on derivative financial instruments designated as cash flow hedges	**(18,276)**	510
Reclassification to earnings of gains on cash flow hedges	**(25,364)**	(66,832)
Other comprehensive loss	**(44,160)**	(76,797)
Comprehensive income	**$ 154,356**	$ 50,673

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

Consolidated Statement of Changes in Equity

For the year ended March 31, 2011

($ in thousands)

For the year ended March 31, 2011 *($ in thousands)*	2011	2010
Retained earnings		
Balance at beginning of the year	**$ 1,777,223**	$ 1,649,753
Net income	**198,516**	127,470
Balance at end of the year	**1,975,739**	1,777,223
Accumulated other comprehensive (loss) income		
Balance at beginning of the year	**32,134**	108,931
Other comprehensive loss	**(44,160)**	(76,797)
Balance at end of the year	**(12,026)**	32,134
Equity as at March 31	**$ 1,963,713**	$ 1,809,357

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

Consolidated Statement of Cash Flows

For the year ended March 31, 2011

($ in thousands)

For the year ended March 31, 2011 *($ in thousands)*	2011	2010
Cash flows from operating activities		
Net income	$ 198,516	$ 127,470
Adjustments to determine net cash flows:		
Provision for credit losses	28,452	58,947
Amortization of premises and equipment	41,139	32,466
Amortization of software and other intangibles	22,460	21,952
Net changes in accrued interest receivable and payable	(9,888)	(14,659)
Net changes in derivative financial instruments	18,502	(14,762)
Recovery on asset-backed commercial paper	(28,800)	(537)
Gain on sale of securitized residential mortgage loans *(note 12)*	(24,007)	(32,710)
Change in provision for payment in lieu of tax	21,223	38,075
Net change in cheques and other items in transit	(8,300)	(13,400)
Change in prepayments and other receivables	(43,225)	21,369
Change in due to clients, brokers, and dealers	(2,862)	9,664
Change in deposit guarantee fee payable	1,793	(4,298)
Change in accounts payable and accrued liabilities	(93,096)	200,878
Change in accrued pension-benefit asset	(17,979)	(11,973)
Other items, net	59,690	15,266
Net cash provided by operating activities	163,618	433,748
Cash flows from financing activities		
Net change in deposits	1,405,332	(1,290,598)
Issuance (repayment) of subordinated debentures	22,291	(11,837)
Change in capital investment notes	(1,614)	224,994
Change in securities sold under repurchase agreements	341,557	(286,404)
Net cash provided by (used in) financing activities	1,767,566	(1,363,845)
Cash flows from investing activities		
Net change in interest-bearing deposits with financial institutions	(448,219)	1,839,788
Purchase of securities	(4,633,155)	(1,675,501)
Proceeds from securities	3,733,208	1,736,085
Net change in loans, excluding securitization	(1,389,544)	(1,987,184)
Proceeds from loan securitizations	942,893	1,001,484
Purchase of premises, equipment, software, and other intangibles	(153,890)	(158,875)
Net cash (used in) provided by investing activities	(1,948,707)	755,797
Net decrease in cash	(17,523)	(174,300)
Cash at beginning of year	179,424	353,724
Cash at end of year	$ 161,901	$ 179,424
Supplementary cash flow information:		
Amount of interest paid during the year	$ 353,245	$ 390,399

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2011

($ in thousands)

1. Authority

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, 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.

ATB is exempt from Canadian federal and Alberta provincial income taxes. Its primary business is providing financial services within Alberta.

2. Basis of Presentation

Management has prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

Use of Estimates and Assumptions

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of balance sheet assets and liabilities and the disclosure of contingent assets and liabilities as at the balance sheet 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 most significant amounts and disclosures where ATB must make estimates include the allowances for credit losses, the fair value of financial instruments, asset securitization, amortization of premises and equipment and software and other intangibles, assumptions underlying the accounting for employee future benefit obligations, and the provision for contingencies.

Basis of Consolidation

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

During the current fiscal year, ATB Investment Services Inc. was amalgamated into ATB Securities Inc. As a result of the amalgamation, the assets, liabilities, and results of operations of ATB Investor Services Inc. have been combined with ATB Securities Inc. effective September 20, 2010. The above amalgamation did not have any impact on the consolidated financial statements of ATB.

Translation of Foreign Currencies

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 average exchange rate for the period. Realized and unrealized gains and losses arising from these translations are included in foreign exchange in the consolidated statement of income.

Notes to the Financial Statements, continued

Significant Accounting Policies

Significant accounting policies followed in preparing these consolidated financial statements are disclosed throughout the following notes, along with the related financial disclosures.

3. Current and Future Changes in Accounting Policies

Current Changes in Accounting Policies

Current Fiscal Year

There were no changes to accounting policies in the current fiscal year.

Future Changes in Accounting Policies

Transition to International Financial Reporting Standards

Canadian publicly accountable enterprises must transition to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As a result, ATB will adopt IFRS commencing April 1, 2011, and will publish its first consolidated financial statements prepared in accordance with IFRS for the quarter ending June 30, 2011. Upon adoption, ATB will provide fiscal 2010–11 comparative financial information also prepared in accordance with IFRS.

Future IASB Projects and Our Assumed Impacts

Several accounting standards are in the process of being amended by the IFRS standard setter, the International Accounting Standards Board (IASB). ATB continually monitors IASB projects for developments and does not expect the issuance of new or revised accounting standards requiring adoption during fiscal 2011–12.

4. Financial Instruments – Recognition and Measurement

ATB classifies all financial assets as held for trading (HFT), held to maturity (HTM), available for sale (AFS), or loans and receivables. It classifies financial liabilities as either HFT or other liabilities. On initial recognition, financial assets and liabilities are recognized at fair value. Any subsequent valuation of financial instruments is based on their classification as disclosed in the notes to the consolidated financial statements. Financial instruments classified as HFT or AFS are measured at fair value. Financial instruments classified as HTM, loans and receivables, and other liabilities are valued at amortized cost using the effective-interest-rate method. ATB has not classified any financial assets as HTM.

Held for Trading

Financial assets and liabilities classified as HFT are measured on the consolidated balance sheet at fair value, with changes in fair value (unrealized gains or losses) recorded in net income in the consolidated statement of income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as other income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

A financial asset or liability may also be irrevocably designated as HFT under the fair value option when it is first recognized. Financial instruments accounted for under the fair value option are measured at fair value, and any changes in fair value are recorded in the consolidated income statement.

Available for Sale

Financial assets classified as AFS are measured on the consolidated balance sheet at fair value, with changes in fair value (unrealized gains or losses) being recognized in other comprehensive income (OCI) rather than net income. Unrealized gains and losses from changes in fair value are recognized in OCI until maturity or sale, when the cumulative gain or loss on disposal is transferred from accumulated other comprehensive income (AOCI) to the consolidated statement of income as other income. In the event of an other-than-temporary impairment in fair value, the cumulative change in fair value of the impaired asset is recognized in net income in the period of impairment. Any interest is recognized on an accrual basis as interest income.

Held to Maturity

ATB may classify non-derivative financial assets as HTM if the assets have fixed or determinable payments and a fixed term to maturity, and if ATB has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective-interest-rate method.

Loans and Receivables

Financial assets classified as loans and receivables are accounted for at amortized cost using the effective-interest-rate method.

Financial Liabilities

Financial liabilities, except for derivatives, are measured at amortized cost using the effective-interest-rate method unless classified as HFT (or designated as such under the fair value option).

5. Financial Instruments – Carrying Value and Fair Value

Financial assets and financial liabilities can be measured at fair value or amortized cost, depending on their classification under the Financial Instrument Recognition and Measurement Accounting standards. (Refer to note 4.)

Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

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, 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 that are commonly used by market participants and that have been demonstrated to 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

Notes to the Financial Statements, continued

primarily on observable market inputs such as interest rate yield curves, foreign-exchange rates, and credit curves, as well as 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 following tables summarize ATB's financial instrument classifications and provide their carrying value and fair value as at March 31:

As at March 31, 2011
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated as held-for-trading assets and liabilities measured at fair value	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	$ 161,901	$ -	$ -	$ -	$ -	$ -	$ 161,901 (1)
Interest-bearing deposits with financial institutions	-	1,123,779	-	-	-	-	1,123,779 (1)
Securities	-	1,944,782	114,096	-	-	-	2,058,878 (1)
Loans							
Residential mortgages	-	-	-	7,823,647	-	-	7,823,647
Business	-	-	-	9,139,082	-	-	9,139,082
Personal	-	-	-	5,589,507	-	-	5,589,507
Credit card	-	-	-	616,953	-	-	616,953
Allowance for credit losses	-	-	-	(226,005)	-	-	(226,005)
	-	-	-	22,943,184	-	-	22,943,184 (2)
Other							
Derivative financial instruments	233,846	-	-	-	-	38,040	271,886
Other assets	-	-	-	226,924	-	-	226,924
	233,846	-	-	226,924	-	38,040	498,810 (1)
Financial liabilities							
Deposits							
Personal	-	-	-	-	(10,559,937)	-	(10,559,937)
Business and other	-	-	-	-	(10,422,053)	-	(10,422,053)
Wholesale	-	-	-	-	(3,000,155)	-	(3,000,155)
	-	-	-	-	(23,982,145)	-	(23,982,145) (3)
Other							
Securities sold under repurchase agreements	-	-	-	-	(341,557)	-	(341,557)
Derivative financial instruments	(237,179)	-	-	-	-	(17,232)	(254,411)
Other liabilities	-	(12,385)	-	-	(501,640)	-	(514,025)
	(237,179)	(12,385)	-	-	(843,197)	(17,232)	(1,109,993) (1)
Capital investment notes	-	-	-	-	(230,972)	-	(230,972) (4)
Subordinated debentures	-	-	-	-	(67,467)	-	(67,467) (5)

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $23,935,516.
[3] Fair value of deposits estimated to be $23,841,933.
[4] Fair value of capital investment notes estimated to be $240,107.
[5] Fair value of subordinated debentures estimated to be $69,026.

Financial Information

As at March 31, 2010
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated as held-for-trading assets and liabilities measured at fair value	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	$ 179,424	$ -	$ -	$ -	$ -	$ -	$ 179,424 (1)
Interest-bearing deposits with financial institutions	-	-	675,576	-	-	-	675,576 (1)
Securities	-	610,696	548,204	-	-	-	1,158,900 (1)
Loans							
Residential mortgages	-	-	-	7,989,004	-	-	7,989,004
Business	-	-	-	8,722,605	-	-	8,722,605
Personal	-	-	-	5,446,028	-	-	5,446,028
Credit card	-	-	-	599,379	-	-	599,379
Allowance for credit losses	-	-	-	(222,413)	-	-	(222,413)
	-	-	-	22,534,603	-	-	22,534,603 (2)
Other							
Derivative financial instruments	142,026	-	-	-	-	84,483	226,509
Other assets	-	-	-	198,000	-	-	198,000
	142,026	-	-	198,000	-	84,483	424,509 (1)
Financial liabilities							
Deposits							
Personal	-	-	-	-	(10,427,133)	-	(10,427,133)
Business and other	-	-	-	-	(9,544,040)	-	(9,544,040)
Wholesale	-	-	-	-	(2,607,994)	-	(2,607,994)
	-	-	-	-	(22,579,167)	-	(22,579,167) (3)
Other							
Derivative financial instruments	(138,934)	-	-	-	-	(7,958)	(146,892)
Other liabilities	-	(7,350)	-	-	(580,242)	-	(587,592)
	(138,934)	(7,350)	-	-	(580,242)	(7,958)	(734,484) (1)
Capital investment notes	-	-	-	-	(224,994)	-	(224,994) (4)
Subordinated debentures	-	-	-	-	(45,176)	-	(45,176) (5)

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $23,247,279.
[3] Fair value of deposits estimated to be $22,521,706.
[4] Fair value of capital investment notes estimated to be $230,073.
[5] Fair value of subordinated debentures estimated to be $46,874.

The fair values are estimated at the balance sheet date using the valuation methods and assumptions described below. These fair values may change in subsequent reporting periods as a result of market conditions or other factors.

Financial Information

Notes to the Financial Statements, continued

Financial Instruments Whose Book Value Approximates 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, other assets, securities sold under repurchase agreements, 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 represents a point-in-time estimate that may change in subsequent reporting periods as a result of changing market conditions or other factors. Fair value estimates of over-the-counter and embedded derivative financial instruments are 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.

Subordinated Debentures and Capital Investment Notes

The fair values of subordinated debentures and capital investment notes is estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

Fair Value Hierarchy

Financial instruments recorded at fair value on the consolidated balance sheet 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 hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The categories of financial instruments whose fair values are classified in Level 3 consist of the following:

- HFT financial assets – investments in asset-backed commercial paper (ABCP). (Refer to note 9.)
- AFS securities – investments in ABCP, mortgage-backed securities, and retained rights to future excess interest on securitization transactions. (Refer to notes 9 and 12.)
- HFT financial liabilities – embedded derivatives relating to interest rate options on certain residential mortgages and the estimated obligation for the Achievement Notes.

The following table presents the level within the fair value hierarchy of ATB's financial assets and liabilities measured at fair value:

As at March 31, 2011 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated as held-for-trading	$ -	$ 1,123,779	$ -	$ 1,123,779
Securities				
Available-for-sale	-	-	114,096	114,096
Designated as held-for-trading	-	1,310,109	634,673	1,944,782
Other assets				
Derivative financial instruments	-	271,886	-	271,886
Total financial assets	-	2,705,774	748,769	3,454,543
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	(254,222)	(189)	(254,411)
Designated as held-for-trading	-	-	(12,385)	(12,385)
Total financial liabilities	$ -	$ (254,222)	$ (12,574)	$ (266,796)

As at March 31, 2010 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Available-for-sale	$ 200,060	$ 475,516	$ -	$ 675,576
Securities				
Available-for-sale	6,227	481,704	60,273	548,204
Designated as held-for-trading	-	-	610,696	610,696
Other assets				
Derivative financial instruments	-	226,509	-	226,509
Total financial assets	206,287	1,183,729	670,969	2,060,985
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	(146,674)	(218)	(146,892)
Designated as held-for-trading	-	-	(7,350)	(7,350)
Total financial liabilities	$ -	$ (146,674)	$ (7,568)	$ (154,242)

ATB performs a sensitivity analysis for fair value measurements classified in Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 9 for the HFT ABCP investments and note 12 for retained interest in securitization. The sensitivity analysis for the AFS ABCP, mortgage-backed securities, the embedded derivatives relating to interest rate options on certain residential mortgages, and the estimated obligation for the Achievement Notes resulted in an insignificant change in fair value.

Notes to the Financial Statements, continued

The following table presents the changes in fair value of Level 3 financial instruments for the year ended March 31, 2011:

($ in thousands)	Available-for-sale securities	Held-for-trading securities	Fair value of derivative financial liabilities	Other liabilities
Fair value as at March 31, 2010	$ 60,273	$ 610,696	$ (218)	$ (7,350)
Total realized and unrealized gains (losses) included in net income	(418)	25,075	29	(4,191)
Total realized and unrealized gains included in other comprehensive income	(1,601)	-	-	-
Net purchases, sales, issuances, and settlements	55,842	(1,098)	-	(844)
Fair value as at March 31, 2011	$ 114,096	$ 634,673	$ (189)	$ (12,385)
Change in unrealized gains (losses) included in income with respect to financial instruments held as at March 31, 2011	$ (418)	$ 25,075	$ 29	$ (4,191)

6. Financial Instruments – Risk Management

ATB has included certain disclosures required by CICA Handbook Section 3862 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 2011 consolidated financial statements.

7. Capital Disclosure

ATB measures and reports capital adequacy to ensure that it meets the minimum levels set out by its owner and regulator, Alberta Finance and Enterprise, 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 Minister of Finance and Enterprise, 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. The capital requirements were amended during the prior fiscal year to expand the definition of Tier 2 capital. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of notional capital and eligible portions of the general 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, 2011, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the Capital Adequacy Guideline.

($ in thousands)	2011	2010
Tier 1 capital		
Retained earnings	$ 1,975,739	$ 1,777,223
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	33,658	9,076
Capital investment notes	134,188	179,995
General allowance for credit losses	181,700	172,657
Notional capital	518,503	568,133
	868,049	929,861
Total regulatory capital	$ 2,843,788	$ 2,707,084
Total risk-weighted assets	$ 20,765,694	$ 19,732,223
Risk-weighted capital ratios		
Tier 1 capital ratio	9.5%	9.0%
Total regulatory capital ratio	13.7%	13.7%

8. Cash Resources

Cash consists of cash on hand, bank notes and coins, and non-interest-bearing deposits with the Bank of Canada and other financial institutions. Interest-bearing deposits with other financial institutions have been classified as either held for trading (HFT) or available for sale (AFS) and are recorded at fair value. Interest income on interest-bearing deposits is recorded on an accrual basis.

Amounts receivable from and payable to other financial institutions related to cheques and other items in transit via the clearing process are recorded at cost as other assets and other liabilities. (Refer to notes 15 and 17.)

The March 31, 2011, carrying value of interest-bearing deposits with financial institutions consists of $1,123,779 (2010: nil) classified as HFT, and none classified as AFS (2010: $675,576).

9. Securities

Securities are purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive.

Interest income and any amortization of premiums and discounts are recorded as interest income in the consolidated statement of income. Gains and losses realized on the disposal of securities are recorded as other income in the consolidated statement of income. ATB recognizes investment transactions relating to its securities portfolio on a settlement date basis.

ATB conducts a quarterly review to identify and evaluate any available-for-sale (AFS) securities that show indications of impairment. A security is considered impaired if its fair value falls below its cost, and a write-down is recorded when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below amortized cost, the financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for enough time to allow for anticipated recovery.

Notes to the Financial Statements, continued

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

($ in thousands)				2011	2010
	Less than 1 year	From 1–5 years	Over 5 years	Total carrying value	Total carrying value
Available-for-sale securities					
Issued or guaranteed by the Canadian federal or provincial government	$ -	$ -	$ -	$ -	$ 481,221
Commercial paper					
Third-party-sponsored ABCP	-	-	3,453	3,453	3,227
Retained interest in securitization	-	70,077	-	70,077	57,046
Other	-	40,566	-	40,566	6,710
Total available-for-sale securities	-	110,643	3,453	114,096	548,204
Designated as held-for-trading securities					
Issued or guaranteed by the Canadian federal or provincial government	1,310,109	-	-	1,310,109	-
Commercial paper					
Third-party-sponsored ABCP	-	-	590,603	590,603	564,657
Bank-sponsored ABCP	-	17,181	26,889	44,070	46,039
Total designated as held-for-trading securities	1,310,109	17,181	617,492	1,944,782	610,696
Total securities	$ 1,310,109	$ 127,824	$ 620,945	$ 2,058,878	$ 1,158,900

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $24,434 as at March 31, 2011 (2010: $23,804). Gross unrealized gains (losses) on AFS securities and interest-bearing deposits with financial institutions are presented in the following table:

As at March 31, 2011 *($ in thousands)*	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Available-for-sale securities				
Issued or guaranteed by the Canadian federal or provincial government	$ -	$ -	$ -	$ -
Commercial paper				
Third-party-sponsored ABCP	3,819	-	(366)	3,453
Retained interest in securitization	67,528	2,549	-	70,077
Other	40,566	-	-	40,566
Total available-for-sale securities	111,913	2,549	(366)	114,096
Interest-bearing deposits with financial institutions	-	-	-	-
Total available-for-sale investments	$ 111,913	$ 2,549	$ (366)	$ 114,096
As at March 31, 2010				
Available-for-sale securities				
Issued or guaranteed by the Canadian federal or provincial government	$ 481,086	$ 145	$ (10)	$ 481,221
Commercial paper				
Third-party-sponsored ABCP	3,703	-	(476)	3,227
Retained interest in securitization	53,996	3,050	-	57,046
Other	6,710	-	-	6,710
Total available-for-sale securities	545,495	3,195	(486)	548,204
Interest-bearing deposits with financial institutions	675,581	-	(5)	675,576
Total available-for-sale investments	$ 1,221,076	$ 3,195	$ (491)	$ 1,223,780

Asset-Backed Commercial Paper

As at March 31, 2011, ATB held asset-backed commercial paper (ABCP) with a total face value of $1,014,148 (2010: $1,023,371). During the year, ATB received principal payments of $7,601 (2010: $70,469) and interest payments of $11,550 (2010: $8,005) on these investments.

ATB's holdings can be divided into three general types:

- Third-party ABCP restructured under the Montreal Accord (Master Asset Vehicle notes, or MAV notes)
- Third-party ABCP restructured outside of the Montreal Accord
- Bank-sponsored ABCP restructured under separate agreements

All are debt instruments with underlying exposure to a range of financial instruments, including residential mortgages, commercial loans, and credit default swaps.

These investments were short-term when first purchased by ATB, but as a result of the general credit crisis that occurred in fiscal 2007–08 they were restructured into longer-term floating-rate notes with a maturity date that more closely matches the maturities of the underlying assets, as detailed in the following table:

($ in thousands)		Cost	Coupon	Expected principal repayment	Credit rating
Third-party ABCP					
MAV 1					
Class A-1	$	410,287	0.30%[1]	Dec 2016	A (high)
Class A-2		384,714	0.30%[1]	Dec 2016	A
Class B		65,589	0.30%[1]	Dec 2016	None
Class C		26,693	20.0%[1]	Dec 2016	None
Tracking notes for ineligible assets		21,255	Floating[2]	July 2056	None
Total MAV 1		**908,538**			
MAV 3					
Tracking notes for traditional assets		3,819	Floating[2]	Sept 2016	None
Total MAV 3		**3,819**			
Other		34,770	1.55%[1]	Dec 2016	B (high)
Total third-party ABCP		**947,127**			
Bank-sponsored ABCP		**67,021**	0%–0.35%[1]	Dec 2013–Sept 2016	None–A (low)
Total ABCP	**$**	**1,014,148**			

[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 HFT, with the exception of the MAV 3 notes, which have been classified as AFS.

Notes to the Financial Statements, continued

MAV Notes

The MAV 1 notes are supported in whole or in part by the originally pledged collateral and synthetic (or derivative-type) assets. These notes are subject to risk of loss and potential additional collateral calls relative to the leveraged super-senior trades included in the synthetic assets. The notes have different levels of subordination relative to potential losses and principal and interest payments. Specifically, C notes absorb the first realized losses, followed by B notes, A-2 notes, and A-1 notes. In addition, interest on C notes is cumulative and payable only when the principal and interest for the A-1, A-2, and B notes is settled in full. Interest on B notes is cumulative and payable only when the principal and interest for the A-1 and A-2 notes is settled in full. The structure is designed to ensure that the lowest-ranking notes—C and B—absorb the first losses, thereby reducing the risk of loss on the A-1 and A-2 notes.

MAV 1 also contains tracking notes for ineligible assets. The return and maturity of these notes is linked to the underlying assets.

MAV 1 note holders are required to provide a margin-funding facility (MFF) to cover possible collateral calls on the leveraged super-senior trades underlying the A-1, A-2, B, and C notes. Advances under this facility are expected to bear interest at a rate based on the bankers' acceptance rate. If ATB fails to fund any collateral under this facility, the notes held by ATB could be terminated or exchanged for subordinated notes. In order to continue to participate in MAV 1 and self-fund the MFF, ATB will have to maintain a credit rating equivalent to AA (high) with at least two of four credit-rating agencies. If ATB does not maintain the required credit rating, it will be required to provide collateral or obtain the required commitment through another entity with a sufficiently high credit rating. ATB's share of the MFF credit commitment is $551,500, for which ATB will not receive a fee. To recognize the fair value of this commitment, $25,328 (2010: $29,528) has been recorded in other liabilities. As at March 31, 2011, 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. This facility was supported by the governments of Canada, Quebec, Alberta, and Ontario to cover possible shortfalls in the MFFs under MAV 1. This facility matured in August 2010. ATB and all other investors must continue to pay a fee to cover the cost of this facility until December 2016.

ATB's MAV 3 notes are supported exclusively by traditional assets with interest and maturity directly linked to the return and maturities of the underlying assets.

Other Third-Party ABCP

ATB holds one non-MAV third-party note with exposure to leveraged super-senior trades. There are no potential collateral calls relative to this note, although if losses were to occur the result would be significant based on the amount of leverage on the underlying exposure.

Bank-Sponsored ABCP

ATB holds three bank-sponsored notes: two issued by Apex Trust and one issued by Superior Trust. These notes have exposure to a combination of commercial mortgages and leveraged super-senior trades.

Establishing Fair Value

As at March 31, 2011, 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, 2011 and 2010:

($ in thousands)	2010 Cost	2010 estimated fair value	Note redemptions	Foreign exchange impact[1]	2011 cost	2011 estimated fair value
MAV 1	$ 915,774	$ 550,054	$ (5,614)	$ (1,622)	**$ 908,538**	**$ 576,000**
MAV 3	5,806	3,227	(1,987)	-	**3,819**	**3,453**
Other third-party sponsored ABCP	34,770	14,603	-	-	**34,770**	**14,603**
Bank-sponsored ABCP	67,021	46,039	-	-	**67,021**	**44,070**
Total ABCP	**$ 1,023,371**	**$ 613,923**	**$ (7,601)**	**$ (1,622)**	**$ 1,014,148**	**$ 638,126**

[1] MAV 1 includes securities with a carrying value of $24,434 denominated in U.S. funds.

MAV Notes – Fair Value

ATB has estimated the fair value of the MAV 1 A-1, A-2, B, and C notes using a discounted cash flow model. The key assumption in this model is the market discount rate. The market discount rate is based on the CDX.IG index tranches adjusted to reflect the lack of liquidity inherent in these notes. The coupon rates, term to maturity, and anticipated cash flows have been based on the expected terms of each note.

The value of the MAV 1 tracking notes for ineligible assets and the MAV 3 tracking notes for traditional assets has been estimated based on a review of the underlying assets.

ATB has recognized a $28,666 increase in fair value on the MAV 1 notes and a $2,103 increase in the value of the MAV 3 notes this year.

Other Third-Party ABCP

ATB has maintained the fair value at $14,603 (42.0% of cost), unchanged from the prior year. This valuation was based on a review of the underlying assets in the trust.

Bank-Sponsored ABCP

ATB also holds investments in certain bank-sponsored commercial paper that were restructured similar to the Montreal Accord notes. The valuation of these notes was based on a review of the underlying assets in each of the trusts. The fair value of these notes decreased from 68.7% of cost as at March 31, 2010, to 65.8% as at March 31, 2011. This decrease in value was due to a decline in the credit quality of the notes.

Income Impact

Because of the measurement uncertainty, ATB recognizes interest income on B notes, C notes, and the tracking notes in MAV 1 and MAV 3 only as it is received—no accruals are recorded.

In addition to the $11,550 (2010: $8,005) of interest income recognized on its ABCP during the year, ATB also recognized $4,200 (2010: $4,197) in other income, representing the accretion of the MFF deferral. ATB recorded a $28,800 adjustment to the fair value of the ABCP portfolio, compared to the $537 recognized in 2010, which was the net of the $8,537 decrease in fair value and the $9,074 payment received for amounts previously written off.

Measurement Uncertainty

There remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie ATB's ABCP. Consequently, it is possible that the ultimate fair value of these assets may vary significantly from current estimates and that the magnitude of any such difference could be material to our financial results. The most significant input into the estimate of value is the market discount rate. A 1% increase in the discount rate will decrease the value of ATB's ABCP notes by approximately $30,000 (2010: $34,900).

10. Loans

Loans are recorded at amortized cost using the effective-interest-rate method, net of specific and general allowances for credit losses. Incremental direct costs relating to the origination of loans are netted against deferred loan fees and recognized on an effective-yield basis in a manner consistent with the appropriate fee. The effective-interest-rate method also incorporates management's best estimate regarding expected future cash flows and the impact of off-market interest rates in the determination of amortized cost. Interest income related to loans is accounted for using the accrual basis of accounting.

Credit Fees

Origination, restructuring, and renegotiation fees and incremental direct costs relating to the origination of loans are deferred as received and amortized into income using the effective-interest-rate method. This method incorporates management's best estimate regarding expected future cash flows and the impact of off-market interest rates in the determination of amortized costs. Commitment fees are recorded as interest income over the term of the loan, unless it is expected that the loan commitment will not be used, in which case commitment fees are recorded as credit fees over the commitment period. Where ATB is the lead in a syndication, loan syndication fees are included in credit fees as the syndication is completed, 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.

Impaired Loans

Loans, except for credit cards, are classified as impaired when, in management's opinion, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is more than 90 days past due, the loan will be classified as impaired unless it is already classified as such, it is fully secured, or there is reasonable assurance as to the timely collection of principal and interest within 180 days of the loan initially going into arrears. Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agriculture credit card loans that become past due for three consecutive billing cycles (approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

When a loan is classified as impaired, interest income ceases to be accrued, and the carrying amount of the loan is reduced to its estimated net realizable amount by writing off all or part of the loan or by taking a specific allowance for credit losses. Allowances are generally not recognized in respect of insured loans. No cash received on an impaired loan is recorded as interest income until such time as any prior writeoffs or specific allowances and external legal fees have been recovered and all past-due principal has been paid. Impaired loans are returned to performing status when the timely collection of all principal and interest is reasonably assured, all arrears have been collected, all legal fees recovered, and allowances for credit losses reversed.

Foreclosed assets held for sale in settlement of an impaired loan are measured at estimated fair value at the date of foreclosure and are presented as a component of loans in the consolidated balance sheet.

Credit Quality

Loans consist of the following:

				2011	2010
($ in thousands)	Gross loans	Specific allowances	General allowances	Net carrying value	Net carrying value
Residential mortgages	$ 7,823,647	$ 1,866	$ 10,590	$ 7,811,191	$ 7,977,129
Commercial	5,291,680	16,968	63,589	5,211,123	4,944,604
Personal	5,589,507	9,099	31,824	5,548,584	5,407,210
Independent business	2,446,204	6,488	47,580	2,392,136	2,311,964
Agricultural	1,401,198	756	14,651	1,385,791	1,316,619
Credit card	616,953	-	22,594	594,359	577,077
	$ 23,169,189	$ 35,177	$ 190,828	$ 22,943,184	$ 22,534,603

The net carrying value of the above loans includes mortgages insured primarily by the Canada Mortgage and Housing Corporation, totalling $2,606,926 as at March 31, 2011 (2010: $2,908,963), and other insured loans, totalling $114,804 (2010: $94,148).

Included in loans as at March 31, 2011, are $12,277 (2010: $17,014) in foreclosed assets held for resale.

The total net carrying value of the above loans includes loans denominated in U.S. funds, totalling $162,560 as at March 31, 2011 (2010: $212,589).

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 otherwise reasonable to expect timely collection of principal and interest:

($ in thousands)	Residential mortgages	Business	Personal	Credit card[1]	2011 Total	2010 Total
Up to one month	$ 104,902	$ 47,317	$ 33,039	$ 34,869	$ 220,127	$ 238,512
Over one month up to two months	27,551	3,297	11,939	8,352	51,139	37,463
Over two months up to three months	4,472	4,727	12,525	3,287	25,011	17,965
Over three months	-	4,863	3,303	5,541	13,707	18,012
Total past due but not impaired	$ 136,925	$ 60,204	$ 60,806	$ 52,049	$ 309,984	$ 311,952

[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.

Notes to the Financial Statements, continued

Impaired Loans

Impaired loans including the related allowances are as follows:

				2011	2010
($ in thousands)	Gross impaired loans	Specific allowances	Net carrying value		Net carrying value
Residential mortgages	$ 74,017	$ 1,866	$ 72,151		$ 67,954
Commercial	40,722	16,968	23,754		3,463
Personal	28,822	9,099	19,723		21,291
Independent business	27,734	6,488	21,246		19,255
Agricultural	4,277	756	3,521		3,223
	$ 175,572	$ 35,177	$ 140,395		$ 115,186

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers are all participants in the Alberta economy, which in the past has shown strong growth and occasional sharp declines. ATB manages its credit risk through diversification of its credit portfolio by limiting concentrations to single borrowers, industries, and geographic regions of Alberta. As at March 31, 2011, no single industry segment represents more than 22.5% (2010: 22.3%) of total gross business loans, and no single borrower represents more than 0.30% (2010: 0.32%) of the total gross loan portfolio.

11. 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 allowance relates primarily to loans, but also provides for credit risk relating to off-balance-sheet items such as loan guarantees and letters of credit. (Refer to note 21.)

The allowance for credit losses consists of specific allowances for impaired loans and general allowances for credit risks. It is presented in the consolidated balance sheet as a reduction of total loan balances or, for any portion of loan-related allowances over the related loan balance, included in other liabilities. The allowance is increased by the provision for credit losses that represents ATB's net credit loss experience for the year and is recorded in the consolidated statement of income. The allowance is decreased by the amount of any provision related to loans written off and is net of any recoveries of previously recognized provisions.

Specific Allowances

The specific allowances on larger non-consumer impaired loans (including credit card balances) are established on a loan-by-loan basis to reduce the carrying value of the impaired loans to the amount expected to be recovered. Various methods are used to determine the net recoverable value of impaired loans, including the fair value of any underlying security, discounted to the amount recoverable in the event of realization, or to the observable market value for the loan. The specific allowance on consumer loans and smaller non-consumer loans is calculated using a formula based on recent loss experience for the particular product type. No specific allowance is provided for impaired consumer credit card loans, as balances are written off if payment has not been received within 180 days, though collection efforts may continue. Any change in the amount we expect to recover on an impaired loan is reflected in the provision for credit losses in the consolidated statement of income.

General Allowance

A general credit-loss allowance is established to provide for impairments in the credit portfolio as at the balance sheet date that cannot be specifically identified on an item-by-item basis and therefore have not been considered in establishing specific allowances.

The level of the general allowance is initially determined by applying expected loss factors to the loan and off-balance-sheet credit portfolios. For consumer balances (including personal and other instalment loans, residential mortgages, and personal credit cards, adjusted for utilization), expected losses are determined at the product portfolio level, based on credit-rating-based loss ratios, expected default rates, and historical loss experiences. For commercial balances (including business loans, business credit cards, and credit instrument balances, adjusted for utilization), expected losses are determined at the borrower-category level by reference to internal risk ratings, expected default rates by risk rating, and historical loss experiences. The consumer and commercial components of the general allowances are then adjusted to reflect management's best judgment concerning possible model and estimation risks, the strength of the Alberta economy, and the overall state of the business cycle.

The general allowance is reassessed quarterly and will normally fluctuate as a result of changes in credit portfolio levels, composition, and risk profile. Trends in probability of loss, severity of loss, and eventual exposure on default are also considered, as is management's assessment of other factors that may affect the losses inherent in the credit portfolio, such as business mix, economic and credit market conditions, and trends.

Special General Allowance

In the event that certain industry sectors experience specific changes in economic conditions or adverse events considered to increase credit risk, an additional special general allowance may be established. Such allowances provide for losses inherent in the credit portfolio that have not been specifically identified and that the general allowance may not provide for. The amount of any special general allowance is reassessed quarterly using expected-loss methodologies that consider the probability of further changes in the conditions or adverse event that gave rise to the initial establishment of the allowance. The probability of default, potential loss given default, and level of expected recoveries, if any, are also considered. As at March 31, 2011 and 2010, there was no special general allowance.

The continuity of the allowances for credit losses is as follows:

($ in thousands)	Specific		General		Total	
	2011	2010	**2011**	2010	**2011**	2010
Balance at beginning of year	**$ 18,458**	$ 18,157	**$ 205,120**	$ 176,854	**$ 223,578**	$ 195,011
Writeoffs	**(33,228)**	(36,158)	**-**	-	**(33,228)**	(36,158)
Recoveries	**8,824**	5,778	**-**	-	**8,824**	5,778
Operating credit losses	**546**	-	**-**	-	**546**	-
Provision (recovery) for credit losses	**42,744**	30,681	**(14,292)**	28,266	**28,452**	58,947
Balance at end of year	**37,344**	18,458	**190,828**	205,120	**228,172**	223,578
Less: allowance for cost of credit recovery included in other liabilities	**2,167**	1,165	**-**	-	**2,167**	1,165
Allowance for credit losses	**$ 35,177**	$ 17,293	**$ 190,828**	$ 205,120	**$ 226,005**	$ 222,413

Notes to the Financial Statements, continued

12. Securitization

ATB periodically securitizes residential mortgage loans by selling loans or packaged loans in the form of mortgage-backed securities (MBS) through the Canada Mortgage Bond (CMB) program. These transactions are accounted for as sales, and the transferred assets are removed from the consolidated balance sheet when ATB has surrendered control over such assets and has received consideration other than beneficial interests in the transferred loans. For control to have been surrendered, all of the following must occur: (i) the transferred loans must be isolated from the seller, even in bankruptcy or other receivership; (ii) the purchaser must have the legal right to sell or pledge the transferred loans; and (iii) the seller must not continue to control the transferred loans through an agreement to purchase them or have a right to cause the loans to be returned. If any one of these conditions is not met, the transfer is considered to be a secured borrowing and the loans remain on the consolidated balance sheet, with the proceeds received recognized as a liability.

ATB securitizes residential mortgage loans through the creation of MBS. Gains on the sale of loans or MBS are recognized in other income on the consolidated statement of income. Upon sale, ATB recognizes a retained interest in the securitized mortgages. The retained interest consists of the discounted value of the future mortgage interest and principal reinvestment receipts less the fixed interest payments due on the CMB. Retained interests are classified as available-for-sale securities and are subject to periodic impairment review.

For loan securitizations in which servicing rights are retained, deferred servicing revenue is recognized in other liabilities. The deferred servicing revenue is amortized into other income in proportion to outstanding balances over the weighted average life of the mortgage pool.

Determination of the gain on sale and the value of the retained interest is based on fair values. Fair values are based on quoted market values, when available. When quoted market values are not available, ATB determines fair value based on the present value of expected future cash flows using management's best estimates of key assumptions, such as weighted average life of the loans, prepayment rates, excess spread, expected credit losses, and discount rates commensurate with the risks involved. ATB is exposed to prepayment and reinvestment risk relative to the retained interest asset.

No credit losses are anticipated, as the transferred residential mortgage loans are insured by the Canada Mortgage and Housing Corporation or by Genworth Financial.

The following table summarizes the residential mortgage loans securitized by ATB:

($ in thousands)		2011		2010
Proceeds, net of transaction fees	$	**942,893**	$	1,001,484
Retained interests		**35,976**		40,413
Deferred servicing revenue		**(6,542)**		(7,283)
		972,327		1,034,614
Residential mortgages securitized and sold		**948,320**		1,001,904
Gain on sale, net of transaction fees	$	**24,007**	$	32,710

The following table summarizes the impact of securitization activities on the consolidated statement of income:

($ in thousands)		2011		2010
Gain on sale, net of transaction fees	$	**24,007**	$	32,710
Servicing revenues		**4,140**		3,977
Other securitization loss		**(2,521)**		(18,414)
Securitization income	$	**25,626**	$	18,273

The following table summarizes certain cash flows received from the CMB program:

($ in thousands)		2011		2010
Net proceeds from new securitizations	$	**942,893**	$	1,001,484
Cash flows received on retained interests	$	**25,708**	$	13,852

The following tables outline the key assumptions used to measure the fair value of the retained interest and the sensitivity of the resulting fair value to a change in the assumptions:

	2011	2010
Expected weighted average life of mortgage pool in months	**34.3**	40.8
Prepayment rate	**15.0%**	15.0%
Excess spread	**1.8%**	2.1%
Discount rate	**2.9%**	3.3%

($ in thousands)		2011		2010
Carrying amount of retained interest	$	**70,078**	$	57,046
Prepayment rate		**15.0%**		15.0%
Impact on fair value of 10% adverse change		**(1,793)**		(1,364)
Impact on fair value of 20% adverse change		**(3,473)**		(2,685)
Residual cash flows discount rate		**2.9%**		3.3%
Impact on fair value of 10% adverse change		**(412)**		(261)
Impact on fair value of 20% adverse change		**(828)**		(476)

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions. Generally, the changes in one factor may result in changes in another, which may magnify or counteract the sensitivity.

The following table summarizes information on residential mortgages serviced by ATB:

($ in thousands)		2011		2010
Total residential mortgages being serviced	$	**9,943,805**	$	9,451,744
Less mortgages securitized		**2,120,158**		1,462,740
Total residential mortgages on consolidated balance sheet	$	**7,823,647**	$	7,989,004

Notes to the Financial Statements, continued

13. Premises and Equipment

Premises and equipment are carried at cost less accumulated amortization, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. The amortization period for buildings under capital lease corresponds to the lesser of the useful life or lease term plus the first renewal option, if applicable. No amortization is calculated on premises and equipment under construction or development until the assets are used. The estimated useful life for each asset class is as follows:

- Buildings: up to 20 years
- Buildings under capital lease: up to 15 years
- Computer equipment: 3 years
- Other equipment: 5 years
- Leasehold improvements: lease term plus first renewal period, to a maximum of 10 years

Amortization expense charged to the consolidated statement of income for the year ended March 31, 2011, for premises and equipment was $41,139 (2010: $32,466).

Gains and losses on the disposal of premises and equipment are recorded in the consolidated statement of income in the year of disposal. When events or changes in circumstances indicate that the carrying value of premises and equipment may not be recoverable, ATB assesses whether the asset may have been impaired. The net carrying value of such impaired assets is written down to their estimated fair value. There were no impairment write-downs recognized during the year ended March 31, 2011 (2010: nil).

			2011	2010
($ in thousands)	Cost	Accumulated amortization	Net carrying value	Net carrying value
Leasehold improvements	$ 169,331	$ 99,582	$ 69,749	$ 64,852
Computer equipment	86,629	52,222	34,407	24,799
Buildings	89,517	61,476	28,041	21,726
Other equipment	46,433	32,285	14,148	11,457
Leasehold improvements under construction	13,046	-	13,046	29,251
Computer equipment under development	8,594	-	8,594	20,150
Buildings under capital lease	9,518	1,092	8,426	9,050
Land	7,470	-	7,470	7,546
	$ 430,538	$ 246,657	$ 183,881	$ 188,831

14. 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 used. The estimated useful life for software and other intangibles is three to five years, with certain software licences having a useful life of 15 years. The majority of the software under development relates to the current project to replace ATB's banking system. ATB expects to amortize the majority of these costs over 15 years once the system is ready for use.

Amortization expense charged to the consolidated statement of income for the year ended March 31, 2011, for software and intangibles was $22,460 (2010: $21,952).

When events or changes in circumstances indicate that the carrying value of software and other intangibles may not be recoverable, ATB assesses whether the asset may be impaired. The net carrying value of any impaired assets is written down to its estimated fair value. There were no impairment write-downs recognized during the year ended March 31, 2011 (2010: nil).

			2011	2010
($ in thousands)	Cost	Accumulated amortization	Net carrying value	Net carrying value
Software under development	$ 238,891	$ -	$ 238,891	$ 139,705
Software	141,522	84,656	56,866	61,002
Other intangibles	2,125	874	1,251	1,060
	$ 382,538	$ 85,530	$ 297,008	$ 201,767

15. Other Assets

Other assets consist of the following:

($ in thousands)	2011	2010
Accrued interest receivable	$ 126,800	$ 114,600
Prepaid expenses and other receivables	87,687	44,462
Cheques and other items in transit	66,400	56,700
Accrued pension-benefit asset *(note 19)*	51,398	33,419
Other	15,261	14,227
	$ 347,546	$ 263,408

Notes to the Financial Statements, continued

16. Deposits

Deposit balances consist of the following:

($ in thousands)								2011	2010
	Payable on demand	Payable after notice	Payable on a fixed date						
			Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years		
Personal	$ 1,751,404	$ 3,793,020	$ 2,618,133	$ 1,607,412	$ 339,629	$ 294,209	$ 156,130	$ 10,559,937	$ 10,427,133
Business and other	4,338,950	2,287,986	3,550,798	169,943	32,487	29,524	12,365	10,422,053	9,544,040
Wholesale	-	-	2,200,891	399,632	399,632	-	-	3,000,155	2,607,994
	$ 6,090,354	$ 6,081,006	$ 8,369,822	$ 2,176,987	$ 771,748	$ 323,733	$ 168,495	$ 23,982,145	$ 22,579,167

Total deposits presented above include $1,216,193 (2010: $667,528) denominated in U.S. funds.

As at March 31, 2011, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $9,245 (2010: $23,600).

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, 2011, the fee was $24,530 (2010: $23,706).

17. Other Liabilities

Other liabilities consist of the following:

($ in thousands)	2011	2010
Accounts payable and accrued liabilities	$ 290,504	$ 388,635
Accrued interest payable	120,229	125,509
Payment in lieu of tax payable *(note 27)*	59,298	38,075
Deposit guarantee fee payable	25,499	23,706
Cheques and other items in transit	17,900	16,500
Due to clients, brokers, and dealers	14,136	16,998
Achievement Notes *(note 29)*	12,385	7,350
Accrued pension-benefit liability *(note 19)*	7,847	6,659
	$ 547,798	$ 623,432

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 27, subordinated debentures were issued in 2010 to settle the outstanding liability for ATB's payment in lieu of tax as at March 31, 2010.

Subordinated debentures consist of the following:

		($ in thousands)	
Maturity date	Interest rate	2011	2010
June 30, 2010	4.2%	$ -	$ 15,784
June 30, 2011	4.6%	**13,402**	13,402
June 30, 2012	4.5%	**15,990**	15,990
June 30, 2015	3.6%	**38,075**	-
		$ **67,467**	$ 45,176

19. Employee Future Benefits

ATB provides future 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 DB and DC provisions. ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees.

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.

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The DB portion of the ATB Plan, SRP, and OPEB obligations provide future employee benefits based on members' years of service and highest average salary. Actuarial determination of the accrued benefit obligations uses the projected benefit method pro-rated on service, which incorporates management's best estimate of long-term investment return on plan assets,

Notes to the Financial Statements, continued

member salary growth and other cost-escalation factors, retirement ages of employees, mortality, and other actuarial factors.

ATB determines the actuarial value of plan assets based on its best estimate of the expected long-term rate of return and fair value of plan assets.

Accounting for Public Service Pension Plan and Defined Contribution Plans

ATB accounts for its participation in the PSPP in the same way it accounts for the cost of the DC provisions of the ATB Plan. In both cases, funding contributions are expensed as they become due and are recorded in salaries and employee benefits in the consolidated statement of income. For the year ended March 31, 2011, expenses related to the PSPP were $10,141 (2010: $7,907), and expenses related to DC provisions of the ATB Plan were $14,151 (2010: $12,762).

Plan Valuations, Asset Allocation, and Funding

ATB measures its accrued benefit obligations and the fair values of plan assets for accounting purposes as at March 31 each year for the ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to its funding policy and 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 for funding purposes was performed as at December 31, 2008. The next required actuarial valuation for funding purposes will be as at December 31, 2011.

The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. The DB plan's actual and target asset allocations are as follows:

	Target 2011		Actual	Target 2010		Actual
(%)	Normal	Min–max	2011	Normal	Min–max	2010
Equities						
Canadian	**22**	**20–30**	**20**	25	20–30	19
Foreign	**40**	**40–50**	**42**	45	40–50	41
	62		**62**	70		60
Fixed income						
Canadian	**38**	**20–40**	**38**	30	20–40	40
Cash	**-**	**0–15**	**-**	-	0–15	-
	100		**100**	100		100

Cash Payments

Total cash paid or payable for employee future benefits for the year ended March 31, 2011—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 $53,927 (2010: $41,222). The cash payments increased over the prior year as ATB made an additional contribution to improve the DB plan's solvency ratio.

Net Accrued Benefit Asset (Liability)

The funded status and net accrued pension-benefit asset (liability) for the DB provisions of the ATB Plan and the other pension obligations (which include the SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB) consist of the following:

($ in thousands)		2011		2010
Registered plan				
Fair value of plan assets	$	**195,544**	$	153,015
Projected benefit obligation		**(227,066)**		(198,867)
Plan funding deficit		**(31,522)**		(45,852)
Unamortized past-service amendment		**13,211**		14,065
Unamortized actuarial net loss		**69,709**		65,206
Accrued pension-benefit asset	$	**51,398**	$	33,419
Supplemental and other				
Unfunded projected benefit obligation, representing the plan funding deficit	$	**(9,200)**	$	(7,929)
Unamortized past-service amendment		**1,176**		1,326
Unamortized actuarial net loss (gain)		**177**		(56)
Accrued pension-benefit liability	$	**(7,847)**	$	(6,659)

The net accrued benefit asset and liability are included in other assets and other liabilities in the consolidated balance sheet as appropriate. (Refer to notes 15 and 17.)

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Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan and of the SRP and OPEB obligations consist of the following:

	Registered plan		Supplemental and other	
($ in thousands)	**2011**	2010	**2011**	2010
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 153,015**	$ 111,247	**$ -**	$ -
Contributions from ATB	**29,274**	20,149	**361**	404
Contributions from employees	**1,147**	1,120	**-**	-
Actual return on plan assets	**14,691**	23,181	**-**	-
Benefits paid	**(5,594)**	(5,095)	**(361)**	(404)
Net transfer in – Public Service Pension Plan	**3,800**	3,600	**-**	-
Actual plan expenses	**(789)**	(1,187)	**-**	-
Fair value of plan assets at end of year	**$ 195,544**	$ 153,015	**$ -**	$ -
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	**$ 198,867**	$ 133,118	**$ 7,929**	$ 4,900
Actuarial loss	**13,345**	53,574	**243**	2,323
Current service cost	**2,496**	1,406	**890**	653
Contributions from employees	**1,147**	1,120	**-**	-
Plan amendment – Public Service Pension Plan	**1,045**	90	**-**	-
Net transfer in – Public Service Pension Plan	**3,800**	3,600	**-**	-
Interest cost	**11,960**	11,054	**499**	457
Benefits paid	**(5,594)**	(5,095)	**(361)**	(404)
Projected benefit obligation at end of year	**$ 227,066**	$ 198,867	**$ 9,200**	$ 7,929

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the SRP and OPEB consists of the following:

	Registered plan		Supplemental and other	
($ in thousands)	**2011**	2010	**2011**	2010
Current service cost (including provision for expenses)	**$ 3,469**	$ 2,165	**$ 890**	$ 653
Interest cost on projected benefit obligation	**11,960**	11,054	**499**	457
Plan amendments	**1,045**	90	**-**	-
Actual return on plan assets	**(14,691)**	(23,181)	**-**	-
Actuarial losses	**13,345**	53,574	**243**	2,323
	15,128	43,702	**1,632**	3,433
Adjustments to recognize the long-term nature of employee future-benefit costs:				
Difference between actual and expected return on plan assets	**3,326**	14,606	**-**	-
Difference between actual actuarial gains arising and actuarial gains amortized	**(8,013)**	(51,908)	**(233)**	(2,568)
Amortization of initial transition asset	**-**	-	**-**	-
Difference between actual past-service amendment arising and past-service amendments amortized	**854**	1,775	**150**	150
Net pension-benefit expense recognized	**$ 11,295**	$ 8,175	**$ 1,549**	$ 1,015

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	
	2011	2010	2011	2010
Accrued benefit obligation as at March 31				
Discount rate at end of year	5.7%	6.0%	5.7%	6.0%
Rate of compensation increase[1]	3.8%	3.1%	3.8%	3.1%
Defined benefit expense for the year ended March 31				
Discount rate at beginning of year	6.0%	8.3%	6.0%	8.3%
Expected long-term return on plan assets	6.6%	7.3%	-	-
Rate of compensation increase[1]	3.1%	2.6%	3.1%	2.6%
Average remaining service period of active employees	8.5 years	8.5 years	8.3 years	9.0 years
Average remaining service period of active employees				
(2006 PSPP transfer)	10.6 years	10.6 years	-	-
(2007 PSPP transfer)	11.2 years	11.2 years	-	-
(2008 PSPP transfer)	11.2 years	11.2 years	-	-
(2009 PSPP transfer)	11.0 years	11.0 years	-	-
(2010 PSPP transfer)	9.5 years	9.5 years	-	-
(2011 PSPP transfer)	10.1 years		-	

[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, 2011, and the related expense for the year then ended:

		Registered plan		Supplemental and other	
($ in thousands)		Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Discount rate					
Impact of:	1.0% increase	$ (30,074)	$ (3,335)	$ (1,012)	$ (140)
	1.0% decrease	38,053	4,078	1,260	103
Inflation rate					
Impact of:	1.0% increase	18,029	2,863	197	30
	1.0% decrease	(16,056)	(2,552)	(234)	(45)
Rate of compensation increase					
Impact of:	0.25% increase	1,550	237	10	5
	0.25% decrease	(1,512)	(234)	(10)	(3)
Expected long-term rate of return on plan assets					
Impact of:	1.0% increase	-	(1,712)	-	-
	1.0% decrease	-	1,712	-	-

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.

Notes to the Financial Statements, continued

20. 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 derivative contracts in the normal course of business, including interest rate swaps and options, equity and commodity options, and foreign-exchange and commodity forwards. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers (referred to as "non-trading" and "trading" portfolios, respectively).

ATB's corporate (or non-trading) 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 trading (or "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 does not accept any 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.

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:

- In interest rate swaps, ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, loan, and deposit portfolios.
- In cross-currency swaps, ATB exchanges interest and principal payments in different currencies. These are used in the corporate portfolio to manage ATB's foreign-exchange risk.

Options

Options are transactions 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 over-the-counter 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

Foreign-exchange or commodity forwards are transactions conducted in the over-the-counter markets 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.

Accounting for Derivatives

All derivative financial instruments, including embedded derivatives, are classified as held for trading (HFT) and measured at fair value on the consolidated balance sheet. Derivatives having positive fair value are presented as derivative assets, and those having 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.

Hedge Accounting

Hedge accounting is optional and allows recognition of the effective component of a hedging derivative in net income at the same time as the hedged item, thus reducing income volatility. The change in fair value attributable to any ineffective component of a hedging derivative is recognized in net income during the period of ineffectiveness.

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair value hedge. No derivative instruments have been designated as fair value hedges as at March 31, 2011 (or as at March 31, 2010).

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 securities and loans as well as certain 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 other comprehensive income, and the ineffective portion in net income. Any such amounts recognized in accumulated other comprehensive income are reclassified from other comprehensive income into net income in the same period that the underlying hedged item affects net income.

The amount of other comprehensive income that is expected to be reclassified to the consolidated statement of income over the next 12 months is $12,525 (2010: $20,732). This will be offset by gains and losses on assets and liabilities that were hedged.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract that have 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.

Notes to the Financial Statements, continued

Derivative-Related Credit Risk

Derivative financial instruments traded in the over-the-counter 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 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:

	2011		2010	
($ in thousands)	Favourable position	Unfavourable position	Favourable position	Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Options	$ 39	$ -	$ 233	$ -
Swaps	8,695	(3,866)	-	-
	8,734	(3,866)	233	-
Embedded derivatives				
Equity- and commodity-linked deposits	-	(68,856)	-	(45,930)
Other	-	(189)	-	(217)
	-	(69,045)	-	(46,147)
Foreign-exchange contracts				
Forwards	6,222	(16,273)	6,451	(6,843)
Equity contracts				
Options	69,457	-	48,405	-
Forward contracts				
Commodities	149,433	(147,995)	86,937	(85,944)
Total fair value ineligible contracts	233,846	(237,179)	142,026	(138,934)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	38,040	(17,232)	84,483	(7,958)
Total fair value eligible contracts	38,040	(17,232)	84,483	(7,958)
Total fair value	$ 271,886	$ (254,411)	$ 226,509	$ (146,892)
Less impact of master netting agreements	(9,628)		(7,958)	
Less impact of financial institution counterparty collateral held	(19,350)		(86,730)	
Residual credit exposure on derivatives to ATB	$ 242,908		$ 131,821	

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $127,889 that relates to client counterparties (2010: $33,022).

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 balance sheet. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

($ in thousands)			Residual term of contract				
	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	2011 Total	2010 Total
Interest rate contracts							
Options	$ 28,871	$ -	$ 4,280	$ 16,412	$ 8,179	$ 28,871	$ 53,889
Swaps	15,315,000	2,182,000	2,275,000	12,762,000	2,460,000	17,497,000	2,969,000
Foreign-exchange contracts							
Forwards	1,793,500	-	1,469,063	312,724	11,713	1,793,500	1,184,142
Equity contracts							
Options	352,670	-	3,800	18,175	330,695	352,670	369,680
Forward contracts							
Commodities	2,891,961	-	69,796	1,428,701	1,393,464	2,891,961	1,622,390
Embedded derivatives							
Equity- and commodity-linked deposits	350,045	-	3,504	17,097	329,444	350,045	330,615
Other	30,930	-	978	3,952	26,000	30,930	40,177
Total	$ 20,762,977	$ 2,182,000	$ 3,826,421	$ 14,559,061	$ 4,559,495	$ 22,944,977	$ 6,569,893

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 $13,214 as at March 31, 2011 (2010: $15,545).

Financial Information

Notes to the Financial Statements, continued

21. 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 proves 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 is unable to 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 contractual amounts of all such credit instruments are outlined in the table below.

The amounts presented in the current and comparative year for commitments to extend credit include demand facilities of $10,072,528 (2010: $8,835,193). For demand facilities, ATB considers the undrawn portion to represent a commitment to our customer; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. In addition, credit facilities are contracted for a limited period of usually less than one year and may expire or terminate without being drawn upon.

($ in thousands)	2011	2010
Guarantees	$ **181,306**	$ 156,062
Letters of credit	**165,876**	177,335
Commitments to extend credit	**12,350,010**	11,759,001
	$ **12,697,192**	$ 12,092,398

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, 2011, the total amount of pledged assets encumbered was $69,753 (2010: $70,875).

As at March 31, 2011, ATB held $19,350 (2010: $86,730) in financial assets as collateral from financial institution counterparties related to derivative contracts.

ATB has also pledged $371,994 in mortgages to support the repurchase agreements outstanding at March 31, 2011 (2010: nil).

($ in thousands)	2011	2010
Assets pledged to:		
Bank of Canada	$ 425,460	$ 687,377
Clearing and Depository Services Inc.	14,000	14,000
Total	$ 439,460	$ 701,377

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 balance sheet as at March 31, 2011, and March 31, 2010, 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.

Notes to the Financial Statements, continued

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

($ in thousands)		2011
2012	$	144,953
2013		95,074
2014		53,402
2015		25,580
2016		19,931
2017 and thereafter		75,503
	$	414,443

The total expense for premises and equipment operating leases charged to the consolidated statement of income for the year ended March 31, 2011, is $38,413 (2010: $36,470).

Major Capital Project

In 2008, the ATB Board approved a project to replace ATB's banking system. Cumulative spending on the project to March 31, 2011, was approximately $309,221 (2010: $176,924). Although not committed contractually, ATB management intends to complete this project in fiscal 2011–12 and expects to spend an additional $35,779. The final project costs may vary depending on the final implementation date.

22. Disclosure of Salaries and Benefits

Salaries and Benefits

ATB is an agent of the Crown in right of Alberta and, as such, is required to disclose certain information prepared in accordance with Treasury Board Directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies, and Crown-controlled organizations. In accordance with the directive, the amounts disclosed in the following table reflect amounts earned in the year ended March 31, 2011:

							2011	2010
		Incentive plan			Retirement and other post-			
($ in thousands)	Base salary[1]	short-term[2]	long-term[3]	Other cash benefits[4]	employment benefits	Other non-cash benefits[5]	Total	Total
Chairman of the Board	$ -	$ -	$ -	$ 81	$ -	$ -	$ 81	$ 79
Board Members[6]	-	-	-	471	-	-	471	435
President and Chief Executive Officer[7]	502	342	386	22	518	17	1,787	1,476
Chief Risk Officer	246	101	182	7	95	17	648	448
Chief Financial Officer	247	99	182	13	74	13	628	445
Chief People and Marketing Officer	241	97	155	11	78	11	593	419
Executive Vice-President Retail Financial Services[8]	130	117	153	110	5	10	525	-
Executive Vice-President Retail Financial Services[9]	62	-	-	730	12	2	806	420
Executive Vice-President Corporate Financial Services	241	188	230	28	81	15	783	487
Executive Vice-President Independent Business & Agriculture	246	196	229	105	23	8	807	547
Executive Vice-President and President ATB Investor Services	251	224	300	50	71	12	908	648

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 two fiscal years.

4 Other cash benefits consist of fees for attendance at meetings, retainers, honoraria, lump-sum payments, perquisite allowances, termination payments, and other direct cash remuneration.

5 Other non-cash benefits consist of ATB's share of all employee benefits and contributions or payments made on behalf of employees, including statutory contributions, health care, parking, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, tuition, and professional memberships.

6 The Board consists of 12 members plus the Chairman, whose remuneration is disclosed separately.

7 The incumbent does not participate in either the registered pension plan or the supplemental retirement plan, but does receive other post-employment benefits.

8 Two incumbents occupied this position during fiscal 2010–11. Amounts presented relate to the current incumbent, who only participates in the registered pension plan. The incumbent does not participate in the supplemental pension plan and is not eligible for any other non-pension benefits.

9 Two incumbents occupied this position during fiscal 2010–11. Amounts presented relate to the previous incumbent.

Notes to the Financial Statements, continued

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 or defined contribution provisions of ATB's registered pension plan (the ATB Plan) together with participation in the non-registered defined benefit supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 19.)

	2011				2010
($ 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]	$ -	$ 422	$ 96	$ 518	$ 438
Chief Risk Officer	13	42	40	95	51
Chief Financial Officer	13	41	20	74	42
Chief People and Marketing Officer	13	34	31	78	37
Executive Vice-President Retail Financial Services[3]	5	-	-	5	-
Executive Vice-President Retail Financial Services[4]	3	5	4	12	26
Executive Vice-President Corporate Financial Services	13	41	27	81	43
Executive Vice-President Independent Business & Agriculture	23	-	-	23	4
Executive Vice-President and President ATB Investor Services	13	29	29	71	36

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, 2011 to provide annual pension income over an actuarially determined post-employment period. Current-service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs for both SRP and OPEB may include amortization of actuarial gains and losses, amortization of past-service amendments, and interest accruing on the accrued benefit obligation.

2 The incumbent does not participate in either the registered pension plan (ATB Plan) or the SRP, but does receive OPEB.

3 Two incumbents occupied this position during fiscal 2010–11. Amounts presented relate to the current incumbent, who only participates in the registered pension plan. The incumbent does not participate in the supplemental pension plan and is not eligible for any other non-pension benefits.

4 Two incumbents occupied this position during fiscal 2010–11. Amounts presented relate to the previous incumbent.

The accrued SRP and OPEB obligation for each executive is as follows:[4]

($ in thousands)	Accrued obligation March 31, 2010	Change in accrued obligation	Accrued obligation March 31, 2011[3]
President and Chief Executive Officer[1]	$ 1,182	$ 706	$ 1,888
Chief Risk Officer	467	95	562
Chief Financial Officer	250	72	322
Chief People and Marketing Officer	369	83	452
Executive Vice-President Retail Financial Services[2]	178	(178)	-
Executive Vice-President Corporate Financial Services	327	81	408
Executive Vice-President and President ATB Investor Services	316	78	394

1 The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.

2 Two incumbents occupied this position during fiscal 2010–11. Amounts presented relate to the previous incumbent.

3 The accrued obligation is the amount of funds that would need to be set aside today to meet the obligations in the future based on predetermined assumptions. The discount rate was decreased from 6.0% on March 31, 2010, to 5.7% on March 31, 2011, because of changes in market interest rates. Consequently, there was a large increase in the accrued obligation on March 31, 2011.

4 The Executive Vice-Presidents of Independent Business & Agriculture and Retail Financial Services do not participate in the SRP.

23. 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 16.) During the year, ATB leased certain premises from the Government of Alberta and paid insurance premiums as a participant in the Alberta Finance Risk Management Fund. For the year ended March 31, 2011, the total of these payments was $1,004 (2010: $921). 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 16 and 27.) 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 of Finance and Enterprise on November 24, 2003 (amended November 9, 2007). Under this agreement, the Minister of Finance and Enterprise acts as fiscal agent of ATB under the Financial Administration Act and is involved in raising wholesale deposits in the marketplace.

ATB provides banking services to its directors on terms similar to those offered to non-related parties, and to its officers and employees at preferential rates. The total outstanding balances of residential mortgages and loans to all of these parties are as follows:

($ in thousands)	2011	2010
Residential mortgages	$ **300,815**	$ 274,041
Personal	**128,459**	117,121
Credit card	**16,381**	15,909
Business and other	**12,524**	28,783
	$ **458,179**	$ 435,854

24. Accumulated Other Comprehensive (Loss) Income

The components of accumulated other comprehensive (loss) income are:

($ in thousands)	2011	2010
Net unrealized gains on available-for-sale securities and interest-bearing deposits with financial institutions, net of hedging activities	$ **2,183**	$ 2,703
Net unrealized (losses) gains on derivative instruments designated as cash flow hedges	**(14,209)**	29,431
Accumulated other comprehensive (loss) income	$ **(12,026)**	$ 32,134

Notes to the Financial Statements, continued

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25. Interest Rate Risk

Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or repricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect net interest income while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

($ in thousands) — Term to maturity/repricing

	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2011							
Assets							
Cash resources and securities	**$ 2,408,234**	**$ 1,318,480**	**$ 3,726,714**	**$ -**	**$ -**	**$ (382,156)**	**$ 3,344,558**
Loans	**15,637,668**	**2,009,792**	**17,647,460**	**7,653,764**	**45,301**	**53,049**	**25,399,574**
Other assets	**-**	**-**	**-**	**-**	**-**	**1,100,321**	**1,100,321**
Derivative financial instruments[1]	**2,920,000**	**2,847,000**	**5,767,000**	**1,235,000**	**200,000**	**-**	**7,202,000**
Total	**$ 20,965,902**	**$ 6,175,272**	**$ 27,141,174**	**$ 8,888,764**	**$ 245,301**	**$ 771,214**	**$ 37,046,453**
Liabilities and equity							
Deposits	**$ 11,494,977**	**$ 4,077,420**	**$ 15,572,397**	**$ 3,983,241**	**$ -**	**$ 4,426,507**	**$ 23,982,145**
Mortgage securitization funding	**-**	**-**	**-**	**2,186,233**	**270,157**	**-**	**2,456,390**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**1,143,766**	**1,143,766**
Capital investment notes	**-**	**-**	**-**	**230,972**	**-**	**-**	**230,972**
Subordinated debentures	**13,403**	**-**	**13,403**	**54,064**	**-**	**-**	**67,467**
Equity	**-**	**-**	**-**	**-**	**-**	**1,963,713**	**1,963,713**
Derivative financial instruments[1]	**5,307,000**	**1,895,000**	**7,202,000**	**-**	**-**	**-**	**7,202,000**
Total	**$ 16,815,380**	**$ 5,972,420**	**$ 22,787,800**	**$ 6,454,510**	**$ 270,157**	**$ 7,533,986**	**$ 37,046,453**
Interest rate sensitive gap	**$ 4,150,522**	**$ 202,852**	**$ 4,353,374**	**$ 2,434,254**	**$ (24,856)**	**$ (6,762,772)**	
As percentage of assets	**11.2%**	**0.55%**	**11.8%**	**6.6%**	**(0.07%)**	**(18.3%)**	
As at March 31, 2010							
Total assets	$ 18,761,266	$ 2,529,123	$ 21,290,389	$ 6,279,157	$ 52,596	$ 775,876	$ 28,398,018
Total liabilities and equity	12,166,791	3,086,660	15,253,451	6,035,160	-	7,109,407	28,398,018
Interest rate sensitive gap	$ 6,594,475	$ (557,537)	$ 6,036,938	$ 243,997	$ 52,596	$ (6,333,531)	
As percentage of assets	23.2%	(2.0%)	21.3%	0.86%	0.19%	(22.3%)	

[1] Derivative financial instruments are included in this table at the notional amount.

The effective yield represents the weighted average effective yield based on the earlier of contractual repricing and maturity dates. The weighted average effective yield for each class of financial asset and liability is shown below:

(%)	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
As at March 31, 2011						
Total assets	**3.3%**	**2.6%**	**3.1%**	**4.5%**	**3.2%**	**3.4%**
Total liabilities and equity	**1.2%**	**1.7%**	**1.3%**	**1.8%**	**2.8%**	**1.4%**
Interest rate sensitive gap	**2.1%**	**0.90%**	**1.8%**	**2.7%**	**0.40%**	**2.0%**
As at March 31, 2010						
Total assets	2.7%	4.2%	2.9%	5.6%	4.6%	3.5%
Total liabilities and equity	0.89%	2.7%	1.3%	2.8%	0.0%	1.7%
Interest rate sensitive gap	1.8%	1.5%	1.6%	2.8%	4.6%	1.8%

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:

($ in thousands)	2011	2010
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	$ **42,955**	$ 60,583
200 basis points	**85,588**	122,154
Decrease in interest rates of:		
100 basis points	**(65,637)**	(37,918)
200 basis points	**(99,092)**	(52,628)

26. Segmented Information

In previous years ATB organized its operations and activities around the following three business segments or lines of business:

- **Personal and Business Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals, independent business, and agricultural customers.
- **Corporate Financial Services** provides financial services to medium- and large-sized corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.

ATB has determined that the Personal and Business Financial Services line should be separated into two separate segments effective April 1, 2010:

- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals.
- **Independent Business & Agriculture** provides financial services to independent business and agricultural customers.

The results for these new business segments are being reported separately effective April 1, 2010. Prior periods have not been restated as past information is

Financial Information

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not available for these new segments. The results for the previous Personal and Business Financial Services segment have been reported in the current fiscal year for comparative purposes.

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, with the exception of Financial Instruments Accounting Standards and Accounting Guideline 4–related adjustments, which are recorded at the corporate level only. Since these lines of business are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

($ in thousands)	Retail Financial Services	Independent Business & Agriculture	Personal and Business Financial Services Subtotal	Corporate Financial Services	Investor Services	Corporate units[1]	Total
March 31, 2011							
Net interest income	**$ 337,570**	**$ 193,275**	**$ 530,845**	**$ 166,905**	**$ 5,190**	**$ 35,772**	**$ 738,712**
Other income (loss)	**90,710**	**62,740**	**153,450**	**61,076**	**52,205**	**(15,453)**	**251,278**
Recovery on ABCP	**-**	**-**	**-**	**-**	**-**	**28,800**	**28,800**
Total operating revenue	**428,280**	**256,015**	**684,295**	**227,981**	**57,395**	**49,119**	**1,018,790**
Provision for (recovery of) credit losses	**32,918**	**5,819**	**38,737**	**(1,350)**	**-**	**(8,935)**	**28,452**
Non-interest expenses	**386,692**	**121,785**	**508,477**	**40,468**	**70,686**	**112,893**	**732,524**
Income (loss) before payment in lieu of tax	**8,670**	**128,411**	**137,081**	**188,863**	**(13,291)**	**(54,839)**	**257,814**
Payment in lieu of tax	**-**	**-**	**-**	**-**	**-**	**59,298**	**59,298**
Net income (loss)	**$ 8,670**	**$ 128,411**	**$ 137,081**	**$ 188,863**	**$ (13,291)**	**$ (114,137)**	**$ 198,516**
Total assets	**$ 15,743,135**	**$ 4,105,036**	**$ 19,848,171**	**$ 5,264,349**	**$ 47,301**	**$ 2,228,242**	**$ 27,388,063**
Total liabilities	**$ 9,985,007**	**$ 5,855,063**	**$ 15,840,070**	**$ 4,406,360**	**$ 744,412**	**$ 4,433,508**	**$ 25,424,350**
March 31, 2010							
Net interest income			$ 472,031	$ 154,796	$ 4,895	$ 42,966	$ 674,688
Other income (loss)			157,937	54,865	40,278	(32,297)	220,783
Recovery on ABCP			-	-	-	537	537
Total operating revenue			629,968	209,661	45,173	11,206	896,008
Provision for (recovery of) credit losses			49,727	16,378	-	(7,158)	58,947
Non-interest expenses			478,152	35,830	58,853	98,681	671,516
Income (loss) before payment in lieu of tax			102,089	157,453	(13,680)	(80,317)	165,545
Payment in lieu of tax			-	-	-	38,075	38,075
Net income (loss)			$ 102,089	$ 157,453	$ (13,680)	$ (118,392)	$ 127,470
Total assets			$ 18,863,167	$ 5,012,210	$ 39,800	$ 1,513,841	$ 25,429,018
Total liabilities			$ 15,855,761	$ 3,367,720	$ 731,949	$ 3,664,231	$ 23,619,661

[1] Composed of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, general allowances, and recoveries for credit losses not expressly attributed to any line.

Customer-related assets and liabilities (and the directly related revenues and expenses) are allocated among ATB's lines of business based on management of the client relationship rather than the specific nature of the loan, deposit, or other product provided or service rendered.

Net interest income is attributed to each line of business according to ATB's internal funds transfer pricing (FTP) system whereby assets earn net interest income to the extent that external revenues exceed internal FTP expense, and liabilities earn net interest income to the extent that internal FTP revenues exceed external interest expense. Specific provisions for credit losses are allocated based on the individual underlying impaired-loan balances, and general provisions (except any special general provisions) are allocated pro rata based on total performing loan balances.

Direct expenses are attributed between lines as incurred. Certain indirect expenses are allocated between Investor Services and the other lines on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined allocation methods incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under corporate units.

27. Payment in Lieu of Tax

Pursuant to the ATB Act, the Government of Alberta has the ability to 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. As at March 31, 2011, ATB accrued a total of $59,298 (2010: $38,075) for payment in lieu of tax.

The amount outstanding as at March 31, 2010, was settled on June 30, 2010, 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 7.)

28. Capital Investment Notes

Capital investment notes are five-year non-redeemable guaranteed notes issued to the general public. As described in note 7 to these financial statements, ATB's capital requirements were amended during the prior fiscal year to expand the definition of Tier 2 capital to include the eligible portion of capital investment notes to a maximum of $500,000. As at March 31, 2011, $230,972 (2010: $224,994) of these notes were outstanding with a fixed rate of return of 4.25% and will mature in fiscal 2014–15.

29. 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 were provided an opportunity to 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.

Notes to the Financial Statements, continued

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 $844 (2010: $5,097) of these notes, which are recorded in other liabilities on the consolidated balance sheet. An expense of $4,191 (2010: $2,253) was recognized during the year to reflect the increase in the fair value of the notes based on the March 31, 2011, valuation of the notes. As at March 31, 2011, the liability for these notes was $12,385 (2010: $7,350).

30. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Board of Directors of ATB Insurance Advisors Inc.

AUDITOR GENERAL *Alberta*

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Insurance Advisors Inc., which comprise the balance sheet as at March 31, 2011, and the statements of operations and comprehensive loss, 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 generally accepted accounting principles, 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 Company as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

June 8, 2011

Edmonton, Alberta

Balance Sheet
As at March 31, 2011

As at March 31, 2011	2011	2010
ASSETS	$	$
Current assets		
Cash	469,491	323,186
Accounts receivable	64,678	48,459
Due from affiliates *(note 4)*	139,598	92,768
Prepaid expenses	26,180	-
	699,947	464,413
Software and other intangibles *(note 5)*	86,029	12,107
	785,976	476,520
LIABILITIES		
Current liabilities		
Accrued liabilities	272,428	239,419
Variable compensation payable	72,832	69,958
Due to ATB *(note 6)*	5,085,937	3,737,939
Current portion of deferred revenue	12,662	12,662
Current portion of deferred variable pay	1,671	847
	5,445,530	4,060,825
Other liabilities		
Deferred revenue	52,843	44,892
Deferred variable pay	39,322	14,171
Achievement notes payable *(note 12)*	104,648	31,996
	5,642,343	4,151,884
SHAREHOLDER'S DEFICIENCY		
Share capital *(note 7)*	5,000	5,000
Deficit	(4,861,367)	(3,680,364)
	(4,856,367)	(3,675,364)
	785,976	476,520

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

Approved by the Board of Directors

Chairman of the Board and Chief Executive Officer

Director

Statement of Deficit
For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010
	$	$
Balance - Beginning of year	(3,680,364)	(2,763,210)
Net loss for the year	(1,181,003)	(917,154)
Balance - End of year	(4,861,367)	(3,680,364)

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

Statement of Operations and Comprehensive Loss
For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010
	$	$
Revenue *(note 8)*		
Insurance commissions	2,721,977	2,549,719
Interest income	72	452
	2,722,049	2,550,171
Administration and Selling expenses *(note 8)*		
Salaries and employee benefits *(note 11 and 12)*	1,556,196	1,182,832
Variable compensation expense	1,009,097	905,070
Other expenses	920,780	840,763
Referral fees paid to affiliates	164,060	228,170
Interest expense	117,588	69,648
Professional fees	117,424	234,789
Amortization expense	17,907	6,053
	3,903,052	3,467,325
Net loss and comprehensive loss	1,181,003	917,154

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

Statement of Cash Flows
For the year ended March 31,2011

For the year ended March 31, 2011	2011	2010
Cash provided for (used in)	$	$
Operating activities		
Net loss for the year	(1,181,003)	(917,154)
Items not affecting cash		
Amortization of software and other intangibles	17,907	6,053
	(1,163,096)	(911,101)
Net change in non-cash working capital items		
(Increase) in prepaid expenses	(26,180)	-
(Increase) in accounts receivable	(16,219)	(35,401)
(Increase) in due from affiliates	(46,830)	(47,450)
Increase in accrued liabilities	33,009	115,935
Increase in variable compensation payable	2,874	26,250
Increase in deferred variable pay	25,975	3,385
Increase (decrease) in deferred revenue	7,951	(12,538)
	(19,420)	50,181
Net change in non-current items		
Increase in achievement notes payable	72,652	31,996
	(1,109,864)	(828,924)
Investing activities		
Investment in capital assets	(91,829)	-
Financing activities		
Increase in due to ATB	1,347,998	917,000
Net change in cash	146,305	88,076
Cash- Beginning of year	323,186	235,110
Cash - End of year	469,491	323,186
Supplementary information		
Interest paid	117,588	69,648
Interest received	72	452

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

Notes to the Financial Statements
For the year ended March 31, 2011
($ in thousands)

1. Incorporation and Operations

ATB Insurance Advisors Inc. ("ATBIA" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established for the purpose of selling wealth management related insurance products to customers of ATB and its subsidiaries. ATBIA was incorporated in Alberta under the Business Corporations Act (Alberta) on July 21, 2006 and commenced operations in December 2006. As a provincial Crown corporation, ATBIA is exempt from income tax.

For the year ended March 31, 2011, ATBIA reported a net loss of $1,181,003 (2010 - $917,154), negative cash flow from operating activities of $1,109,864 (2010 - $828,924), and an accumulated deficit of $4,861,367 (2010 - $3,680,364). The continuing operations of ATBIA are dependent upon ATB's ongoing financial support.

2. Significant Accounting Policies

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies followed in the preparation of these financial statements are summarized below:

Measurement Uncertainty

In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates.

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.

Cash

Cash consists of cash on deposit held with ATB.

Software and other intangibles

Computer software is amortized on a straight-line basis over the estimated useful life of 5 years. Amortization commences in the year the system development is completed. Software and other intangibles are tested for impairment on an annual basis.

Financial Instruments

ATBIA has made the following classifications:

- Cash is classified as financial assets held for trading and measured at fair value.
- Accounts receivable and due from affiliates are classified as loans and receivables and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.
- Accrued liabilities, variable compensation payable, due to ATB and deferred variable pay are classified as

Notes to the Financial Statements, continued

other liabilities and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.

- Achievement notes payable are measured at fair value and are marked to market at each balance sheet date, with changes in fair value recognized as salaries and employee benefit expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs are expensed as incurred.

Impairment of Long-lived Assets

Long-lived assets include equipment, software and intangibles. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized is measured as the amount by which the carrying value exceeds its fair value.

3. Accounting Pronouncements Published but not yet Adopted International Financial Reporting Standards

The Accounting Standards Board (AcSB) confirmed and communicated its decision to replace Canadian generally accepted accounting principles with International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB) on or by January 1, 2011. The Company will adopt International Financial Reporting Standards for the year ending March 31, 2012. Management has evaluated the effects of all current and pending pronouncements of the IASB on the Company and has developed a plan for implementation in conjunction with ATB.

4. Due from Affiliates

In the normal course of operations, ATBIA pays referral fees to ATB Securities Inc. ("ATBSI"). Alternatively, ATBIA may pay for certain expenses on behalf of ATB Investment Management Inc. ("ATBIM") and ATBSI. The amounts due from affiliates are generally settled in the following month and are not subject to interest charges. The amounts due from affiliates as at March 31 are as follows:

	2011	2010
	$	$
Due from ATBIM	44,374	33,568
Due from ATBSI	95,224	59,200
	139,598	92,768

5. Software and Other Intangibles

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
	$	$	$	$
Other intangible	122,095	(36,066)	86,029	12,107

Amortization expense charged to the Statement of Operations and Comprehensive Loss for the year ended March 31, 2011, in respect of Software and other intangibles was $17,907 (2010 - $6,053).

6. Due to ATB

In the normal course of operations, ATB pays certain expenses on behalf of ATBIA. The amounts due to ATB as at March 31 arising from these transactions are as follows:

	2011	2010
	$	$
Due to ATB	5,085,937	3,737,939

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2011 was 3.00% (2010 – 2.25%).

7. 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

	2011	2010
Class A common shares #	100	100
Amount	$ 5,000	$ 5,000

8. Related Party Transactions

In the normal course of operations, ATBIA receives interest revenue from ATB, and pays fees to ATBSI and ATBIS. ATB also charges ATBIA for various administrative and selling services, as well as charging interest on amounts owing to ATB.

Financial Information

Notes to the Financial Statements, continued

A summary of these transactions for the period ended March 31 is as follows:

Related party	Transactions	Recorded as	2011	2010
			$	$
	Revenue			
ATB	Interest	Interest income	72	452
	Administrative and selling expenses			
ATBSI	Referral fees	Referral fees paid to affiliates	164,060	228,170
ATB	Administrative services	Other expenses	84,057	84,667
ATB	IT, rent and Marketing	Other expenses	504,009	436,886
			752,126	749,723
	Interest expense			
ATB	Interest expense	Interest expense	117,588	69,648

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.

9. Financial Instruments

ATBIA's financial instruments consist of cash, accounts receivable, due from affiliates, accrued liabilities, variable compensation payable, due to ATB, deferred variable pay and achievement notes payable.

Financial Risk Management

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.

Fair Value

The fair value of accounts receivable, due from affiliates, accrued liabilities, variable compensation payable and amounts due to ATB approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is estimated based on discounting future cash flows by a discounting factor used for similar benefit plans. The fair value of achievement notes is estimated monthly based on a valuation formula and periodically by an independent fair value determination.

Market Risk

There are three types of market risk: currency risk, interest rate risk and price risk.

Currency risk: Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBIA does not have any financial instruments denominated in foreign currencies.

Interest rate risk: ATBIA is subject to interest rate cash flow risk as its amount due to ATB is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIA does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2011, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $50,859 (2010 - $34,380).

Price risk: ATBIA's exposure to financial market risk is limited since there are no significant financial instruments, which will fluctuate as a result of changes in market prices.

Credit Risk

ATBIA is exposed to credit risk through its cash, accounts receivable and due from affiliates. ATBIA has cash and due from affiliate balances held with its parent company, ATB, an Alberta Crown Agent and its subsidiaries, from which management believes the risk of loss to be insignificant. ATBIA accrues revenues from reputable insurance underwriters, from which management believes the risk of loss to be remote. The Company's maximum credit exposure is $673,767, 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 obligations and whether additional funding is required through its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk which are considered short-term (due on demand or within 30 days) include accrued liabilities, variable pay compensation payable and due to ATB.

10. Fair Value Measurements

The following is a summary of ATBIA's financial instruments within the fair value hierarchy as at March 31, 2011:

	Financial instruments at fair value as at March 31, 2011			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	$	$	$	$
Cash	469,491	-	-	469,491
Total financial assets	469,491	-	-	469,491
Achievement notes payable	-	-	(104,648)	(104,648)
Total financial liabilities	-	-	(104,648)	(104,648)

The fair value of achievement notes represents ATBIA's proportionate share of the total change in unrealized loss during the year with respect to the liability held at March 31, 2011 (note 12).

11. Employee Future Benefits

ATBIA provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Loss. For the year ended March 31, 2011, expenses related to defined contribution plans were $179,024 (2010 - $186,724).

Notes to the Financial Statements, continued

12. 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 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. 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 were no distributions paid in current or prior years.

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 only 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.

ATBIA records its proportionate share of the fair market value adjustments under other liabilities on the balance sheet. For the year ended March 31, 2011, an expense of $72,652 (2010 - $31,996) was recorded as salaries and employee benefit expense to reflect the increase in the liability to ATBIA employees holding notes, based on the valuation of certain ATB subsidiaries. As at March 31, 2011, the total liability relative to these notes was $104,648 (2010 - $31,996).

13. Comparative Figures

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

Financial Information

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Investment Management Inc., which comprise the balance sheet as at March 31, 2011, and the statements of operations and comprehensive loss, 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 generally accepted accounting principles, 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 ssessments, 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 Company as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

June 8, 2011

Edmonton, Alberta

Balance Sheet
As at March 31, 2011

As at March 31, 2011	2011	2010
ASSETS	$	$
Current assets		
Cash	4,906,624	2,533,321
Accounts receivable	3,112,481	2,375,690
Prepaid expenses	208,013	231,135
	8,227,118	5,140,146
Other assets *(note 5)*		
Equipment	11,217	20,191
Software and other intangibles	2,406,463	2,920,744
	2,417,680	2,940,935
	10,644,798	8,081,081
LIABILITIES		
Current liabilities		
Accrued liabilities	2,706,532	1,807,183
Due to affiliates *(note 4)*	214,032	243,900
Due to ATB *(note 6)*	3,665,497	1,349,982
Current portion of deferred variable pay	28,342	25,698
	6,614,403	3,426,763
Other liabilities		
Deferred variable pay	131,145	137,651
Achievement notes payable *(note 14)*	1,103,655	390,488
	7,849,203	3,954,902
SHAREHOLDER'S EQUITY		
Share capital *(note 7)*	5,000	5,000
Retained earnings	2,790,595	4,121,179
	2,795,595	4,126,179
	10,644,798	8,081,081

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

Approved by the Board of Directors

Chairman of the Board and Chief Executive Officer

Director

Statement of Retained Earnings
For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010
	$	$
Balance - Beginning of year	4,121,179	3,748,465
Net income for the year	2,169,416	372,714
Dividends paid	(3,500,000)	-
Balance - End of year	2,790,595	4,121,179

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

Statement of Operations and Comprehensive Income
For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010
	$	$
Revenue *(note 8)*		
Investment management fees	30,776,658	23,474,526
Other revenue	4,470,268	3,097,770
Interest revenue	27,174	4,802
	35,274,100	26,577,098
Administration and Selling expenses *(note 8)*		
Trailing commission	17,281,398	13,042,210
Professional fees	7,513,093	6,240,647
Salaries and employee benefits *(note 13 and 14)*	5,388,872	4,730,834
Other expenses	2,184,754	1,688,737
Amortization expense	724,126	497,237
Interest expense	12,441	4,719
	33,104,684	26,204,384
Net income and comprehensive income for the year	2,169,416	372,714

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

Statement of Cash Flows
For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010
Cash provided for (used in)	$	$
Operating activities		
Net income for the year	2,169,416	372,714
Items not affecting cash		
Amortization of equipment	8,974	-
Amortization of software and other intangibles	715,152	497,237
	2,893,542	869,951
Net change in non-cash working capital items		
(Increase) in accounts receivable	(736,791)	(655,136)
Decrease (increase) in prepaid expenses	23,122	(29,072)
Increase in accrued liabilities	899,349	525,801
(Decrease) increase in due to affiliates	(29,868)	160,965
(Decrease) increase in deferred variable pay	(3,862)	51,748
	151,950	54,306
Net change in non-current items		
Increase in achievement notes payable	713,167	390,488
	3,758,659	1,314,745
Investing activities		
Purchase of equipment, software and other intangibles	(200,871)	(680,548)
Financing activities		
Dividends paid	(3,500,000)	-
Increase in due to ATB	2,315,515	140,160
	(1,184,485)	140,160
Net change in cash	2,373,303	774,357
Cash - Beginning of year	2,533,321	1,758,964
Cash - End of year	4,906,624	2,533,321
Supplementary information		
Interest paid	12,441	4,719
Interest received	27,174	4,802

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

Financial Information

Notes to the Financial Statements
For the year ended March 31, 2011
($ in thousands)

1. Incorporation and Operations

ATB Investment Management Inc. ("ATBIM" of the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to facilitate managing a family of ATB ("Compass") mutual fund portfolios and providing portfolio management services to high net worth clientele. The continuing operations of ATBIM are dependent upon ATB's ongoing financial support. ATBIM was incorporated under the Business Corporations Act (Alberta) on August 21, 2002. As a provincial Crown corporation, ATBIM is exempt from income tax. ATBIM is registered with the Alberta Securities Commission ("ASC").

2. Significant Accounting Policies

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies followed in the preparation of these financial statements are summarized below:

Measurement Uncertainty

In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates.

Revenue Recognition

Investment management fees are based on net asset values of the Compass mutual fund portfolios and are recognized on an accrual basis. Interest revenue includes interest earned on cash deposits with ATB and is recorded on an accrual basis (note 8). Other revenue includes fees earned from clients for management of their accounts.

Cash

Cash consists of cash on deposit held with ATB.

Equipment

Equipment is carried at cost less accumulated amortization. Equipment is amortized on a straight-line basis over the estimated useful life of 3 years.

Software and other intangibles

Computer software and system development costs are amortized on a straight-line basis over the estimated useful life of 5 years. Amortization commences in the year the system development is completed. Software and other intangibles are tested for impairment on an annual basis.

Expense absorption

In its sole discretion, ATBIM may waive or absorb expenses of the ATB Compass Portfolio mutual funds. The effect of such waivers and absorption is recorded in Other expenses in the amount of $15,703 (2009 - $67,504).

Financial Instruments

ATBIM has made the following designations:

- Cash is classified as a financial asset held for trading and measured at fair value.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.

- Accrued liabilities, due to affiliates, due to ATB and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.
- Achievement notes payable are measured at fair value and are marked to market at each balance sheet date, with changes in fair value recognized as salaries and employee benefit expense.

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs are expensed as incurred.

Impairment of Long-lived Assets

Long-lived assets include equipment, software and intangibles. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized is measured as the amount by which the carrying value exceeds its fair value.

3. Accounting Pronouncements Published but not yet Adopted International Financial Reporting Standards

The Accounting Standards Board (AcSB) confirmed and communicated its decision to replace Canadian generally accepted accounting principles with International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB) on or by January 1, 2011. The Company will adopt International Financial Reporting Standards for the year ending March 31, 2012. Management has evaluated the effects of all current and pending pronouncements of the IASB on the Company and has developed a plan for implementation in conjunction with ATB.

4. Due to Affiliates

In the normal course of operations, ATBIM pays trailing commissions to ATB Securities Inc. ("ATBSI"). ATBSI collects client fees on behalf of ATBIM. ATBSI and ATB Insurance Advisors Inc. ("ATBIA") may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBSI and ATBIA. The amounts due to (from) ATBSI and ATBIA are generally settled in the following month and are not subject to interest charges.

The amounts due to affiliates as at March 31 are as follows:

	2011	2010
	$	$
Due to ATBSI	169,658	210,332
Due to ATBIA	44,375	33,568
	214,033	243,900

Notes to the Financial Statements, continued

5. Other assets

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
	$	$	$	$
Equipment	26,921	(15,704)	11,217	20,191
Software and other intangibles				
Computer software	3,924,638	(1,537,838)	2,386,800	2,707,961
System development costs	19,663	-	19,663	212,783
	3,944,301	(1,537,838)	2,406,463	2,920,744
Total Other assets	3,971,222	(1,553,542)	2,417,680	2,940,935

Amortization expense charged to the Statement of Operations for the year ended March 31, 2011, in respect of Equipment was $8,973 (2010-$6,730) and Software and other intangibles was $715,153 (2010 - $490,507).

6. Due to ATB

In the normal course of operations, ATB pays certain expenses 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 as at March 31 are as follows:

	2011	2010
	$	$
Due to ATB	3,665,497	1,349,982

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2011 was 3.00% (2010 – 2.25%).

7. 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

	2011	2010
Class A common shares #	100	100
Amount	$ 5,000	$ 5,000

8. 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. 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 for the years ended March 31 is at follows:

Related party	Transactions	Recorded as	2011	2010
			$	$
	Revenue			
ATB	Interest income	Interest revenue	27,174	4,802
	Administrative and selling expenses			
ATBSI	Trailer fees	Trailing commission	17,270,542	13,034,079
ATB	Professional Services	Professional fees	93,105	87,882
ATB	IT, rent and marketing	Other expenses	995,921	726,698
ATBSI	Client referral fees	Professional fees	1,668,675	1,297,457
ATBSI	Transaction fees	Other expenses	478,650	401,640
			20,506,893	15,547,756
	Interest expense			
ATB	Other interest expense	Interest expense	12,441	4,719

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.

9. Commitments

ATBIM has various service arrangements that are non-cancellable contracts. The future minimum payments in respect to such are outlined below:

Year	$
2012	218,800
2013	164,100
	382,900

Financial Information

Notes to the Financial Statements, continued

10. Financial instruments

ATBIM's financial instruments consist of cash, accounts receivable, accrued liabilities, due to affiliates, due to ATB, deferred variable pay and achievement notes payable.

Financial Risk Management

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.

Fair Value

The fair value of accounts receivable, accrued liabilities, due to affiliates and amounts due to ATB approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is estimated based on discounting future cash flows by a discounting factor used for similar benefit plans. The fair value of achievement notes is estimated monthly based on a valuation formula and periodically by an independent fair value determination.

Market Risk

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. ATBIM does not have any amounts of financial instruments denominated in foreign currencies.

Interest rate risk: ATBIM is subject to interest rate cash flow risk as its amount due to ATB is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2011, if rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $36,655 (2010 - $13,350).

Price risk: ATBIM's exposure to financial market risk is limited since there are no significant financial instruments held by the Company, which will fluctuate as a result of changes in market prices.

Credit Risk

ATBIM is exposed to credit risk through its cash, accounts receivable and due from affiliates. ATBIM has cash and due from affiliate balances held with its parent company, ATB, an Alberta Crown Agent and its subsidiaries, from which management believes the risk of loss to be insignificant. The risk inherent to accounts receivable is effectively mitigated by ATBIM's diverse customer and trading counterparty base, and the creditworthiness of the counterparty. The Company's maximum credit exposure is $8,019,105 which is the sum of cash and accounts receivable.

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.

The Company's financial liabilities giving rise to liquidity risk which are considered short-term (due on demand or within 30 days) include accrued liabilities, due to ATB and due to affiliates.

11. Fair Value Measurements

The following is a summary of ATBIM's financial instruments within the fair value hierarchy as at March 31, 2011:

	Financial instruments at fair value as at March 31, 2011			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	$	$	$	$
Cash	4,906,624	-	-	4,906,624
Total financial assets	4,906,624	-	-	4,906,624
Achievement notes payable	-	-	(1,103,655)	(1,103,655)
Total financial liabilities	-	-	(1,103,655)	(1,103,655)

The fair value of achievement notes represents ATBIM's proportionate share of the total change in unrealized loss during the year with respect to the liability held at March 31, 2011 (note 14).

12. Capital Risk Management

The Company'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, and to provide financial capacity and flexibility to meet its strategic objectives.

The Company's capital management strategy is to maintain at all times working capital sufficient in size to satisfy ASC's minimum Excess Working Capital requirements. The Company has met the minimum Excess Working Capital requirement throughout the year.

13. Employee Future Benefits

ATBIM provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Income. For the year ended March 31, 2011, expenses related to defined contribution plans were $228,125 (2010 - $342,658).

14. 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 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. Holders of these notes do not

Notes to the Financial Statements, continued

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 were no distributions paid in current or prior years.

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 only 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.

ATBIM records its proportionate share of the fair market value adjustments under other liabilities on the balance sheet. An expense of $713,166 (2010 - $390,488) was recorded as salaries and employee benefit expense to reflect the increase in the liability to ATBIM employees holding notes, based on the valuation of certain ATB subsidiaries. As at March 31, 2011, the total liability relative to these notes was $1,103,655 (2010 - $390,488).

15. Comparative Figures

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

ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

To the Board of Directors of ATB Securities Inc.

AUDITOR GENERAL *Alberta*

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Securities Inc., which comprise the balance sheet as at March 31, 2011, and the statements of operations and comprehensive loss, 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 generally accepted accounting principles, 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 Company as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

June 8, 2011

Edmonton, Alberta

Balance Sheet
As at March 31, 2011

As at March 31, 2011	2011	2010 (restated-note 1)
ASSETS	$	$
Current assets		
Cash	252,380	3,967,434
Short term investments *(note 11)*	41,472,499	29,726,056
Clients' cash held in trust	23,893,502	22,952,244
Due from clients	5,828,768	10,123,197
Due from brokers and dealers	9,067,770	8,476,677
Client fees receivable	1,631,329	1,071,500
Trailer fees receivable	2,171,139	1,721,771
Due from affiliates *(note 4)*	169,658	210,331
Prepaid expenses	247,078	240,320
Inventory	6,241	19,774
	84,740,364	78,509,304
Other assets *(note 5)*		
Equipment	1,396,333	420,462
Software and other intangibles	11,316,647	7,643,913
	12,712,980	8,064,375
	97,453,344	86,573,679
LIABILITIES		
Current liabilities		
Due to clients	37,515,656	33,094,480
Due to brokers and dealers	13,744,594	16,797,564
Accrued liabilities	4,840,686	4,236,508
Variable compensation payable	1,583,514	1,105,242
Due to ATB *(note 6)*	5,192,123	4,051,702
Due to affiliates *(note 4)*	95,224	59,200
Unearned revenue	384,604	366,881
Current portion of deferred variable pay	133,092	72,546
	63,489,493	59,784,123
Other liabilities		
Deferred variable pay	430,281	309,673
Achievement notes payable *(note 14)*	2,783,557	945,239
	66,703,331	61,039,035
SHAREHOLDER'S EQUITY		
Share capital *(note 7)*	114,245,000	43,000,000
Share capital, ATB Investment Services *(note 1, 7)*	-	51,745,000
Deficit	(83,494,987)	(69,210,356)
	30,750,013	25,534,644
	97,453,344	86,573,679

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

Approved by the Board of Directors

Chairman of the Board

Director

Statement of Deficit

For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010 (restated-note 1)
	$	$
Balance - Beginning of year	(69,210,356)	(56,074,562)
Net loss for the year	(14,284,631)	(13,135,794)
Balance - End of year	(83,494,987)	(69,210,356)

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010 (restated-note 1)
	$	$
Revenue *(note 8)*		
Mutual fund commissions	24,934,732	18,681,865
Client fees	4,955,286	3,856,651
Other commissions	4,687,304	4,686,821
Client referral fees	2,311,385	1,927,268
Securities commissions	876,036	960,642
Other revenue	740,748	691,145
Interest revenue	475,463	202,475
	38,980,954	31,006,867
Administration and Selling expenses *(note 8)*		
Salaries and employee benefits	18,949,941	16,172,702
Variable compensation expense	15,502,175	11,760,480
Other expenses	6,835,802	5,527,174
Processing fees	6,678,643	6,474,150
Professional fees	3,543,737	3,112,557
Amortization expense	1,646,050	1,074,568
Interest expense	109,237	21,030
	53,265,585	44,142,661
Net loss and comprehensive loss for the year	14,284,631	13,135,794

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

Statement of Cash Flows

For the year ended March 31, 2011

For the year ended March 31, 2011	2011	2010 (restated-note 1)
Cash provided from (used in)	$	$
Operating activities		
Net loss for the year	(14,284,631)	(13,135,794)
Items not affecting cash		
Amortization of equipment	65,281	12,977
Amortization of software and other intangibles	1,580,769	1,061,591
	(12,638,581)	(12,061,226)
Net change in non-cash working capital items		
Cash received from (paid to) clients and brokers/dealers	4,130,284	(8,900,037)
(Increase) in client fees receivable	(559,829)	(291,510)
(Increase) in trailer fees receivable	(449,368)	(426,048)
(Increase) in prepaid expenses	(6,758)	(4,474)
Decrease (increase) in inventory	13,533	(19,774)
Increase in accrued liabilities	604,178	1,839,897
Net increase (decrease) in due to/(from) affiliates	76,697	(113,514)
Increase in variable compensation payable	478,272	160,069
Increase (decrease) in unearned revenue	17,723	(2,408)
Increase (decrease) in deferred variable pay	181,154	(2,094)
	4,485,886	(7,759,893)
Net change in non-current items		
Increase in achievement notes payable	1,838,318	945,239
	(6,314,377)	(18,875,880)
Investing activities		
(Increase) in short term investments	(11,746,443)	(12,518,620)
Purchase of equipment, software and other intangibles	(6,294,655)	(5,051,402)
	(18,041,098)	(17,570,022)
Financing activities		
Issuance of share capital	19,500,000	19,500,000
Increase in due to ATB	1,140,421	1,299,099
	20,640,421	20,799,099
Net change in cash	(3,715,054)	(15,646,803)
Cash - Beginning of year	3,967,434	19,614,237
Cash - End of year	252,380	3,967,434
Supplementary information		
Interest paid	109,237	21,030
Interest received	475,463	202,475

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

Notes to the Financial Statements

For the year ended March 31, 2011

($ in thousands)

1. Incorporation and Operations

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to facilitate client trading of securities. ATBSI was incorporated in Alberta under the Business Corporations Act (Alberta) on February 6, 2003. ATBSI commenced operations on July 26, 2003. As a provincial Crown corporation, ATBSI is exempt from income tax. ATBSI is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investors Protection Fund ("CIPF").

ATB Investment Services Inc. ("ATBIS") was a wholly owned subsidiary of ATB. ATBIS was established for the purpose of distributing mutual funds and Guaranteed Investment Certificates (GICs). ATBIS was incorporated under the Business Corporation Act (Alberta) on October 3, 1997 and was a member of the Mutual Fund Dealers Association of Canada ("MFDA") and registered with the Alberta Securities Commission ("ASC").

The Board of Directors and the respective regulatory bodies of ATBSI and ATBIS approved the amalgamation of these entities effective September 20, 2010. At that time, ATBIS was dissolved and all business was transferred to ATBSI. The amalgamated business will continue to operate as ATBSI. This amalgamation was accounted for under CICA Handbook EIC89 as a continuity of interests, in that the amalgamated entity reflects the balances and results of operations as if they had been combined from their inception and the assets and liabilities of ATBIS are recorded in ATBSI at their carrying value. The prior year comparative balances have been restated to reflect the combined results of ATBSI and ATBIS.

For the year ended March 31, 2011, ATBSI reported a net loss of $14,284,631 (2010 - $13,135,794), negative cash flow from operating activities of $6,314,377 (2010 – $18,875,880) and an accumulated deficit of $83,494,987 (2010 – $69,210,356). A total of $19,500,000 of capital was injected in the current fiscal year, of which $17,500,000 (2010 - $12,000,000) was received by ATBSI and $2,000,000 (2010 - $7,500,000) was received by ATBIS prior to the amalgamation with ATBSI. The continuing operations of ATBSI remains dependent upon ATB's ongoing financial support.

2. Significant Accounting Policies

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies followed in the preparation of these financial statements are summarized below:

Measurement Uncertainty

In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates.

Revenue Recognition

ATBSI earns commission revenue from third party mutual funds and affiliates (note 8). Commission revenue earned on mutual fund sales and securities transactions is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Other revenue is recorded on an accrual basis and includes Registered Retirement Savings Plan (RRSP) administration fees, Guaranteed Investment Certificate (GIC) referral revenue, interest income, client referral fee income, and client transaction fee income. A 25 bps GIC referral fee is paid by ATB to ATBSI based on the average amount of GIC's held by the Company. Insurance referral fees are paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate, to ATBSI based on revenues generated by the insurance product sales. Client referral fees are paid by ATB Investment Management Inc. ("ATBIM"), an affiliate, to ATBSI based on actual commissions paid to ATBSI sales staff. Transaction fees are paid by ATBIM to ATBSI based on fair market values of client trade processing.

Unearned revenue relates to annual RRSP administration fees on client accounts that are amortized into income over the calendar year.

Cash

Cash consists of cash on deposit held with ATB.

Short Term Investments

Short term investments consist of Federal treasury bills with maturity dates of less than one year.

Clients' Cash Held in Trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and Tax Free Savings Accounts (TFSAs) segregated in trust accounts with Canadian Western Trust. Corresponding liabilities are included in Due to clients. Client balances are reported on a trade date basis.

Equipment

Equipment is carried at cost less accumulated amortization. Equipment is amortized on a straight-line basis over its estimated useful life, between 3 and 10 years.

Software and Other Intangibles

Computer software and system development costs are amortized on a straight-line basis over its estimated useful life, between 5 and 10 years. Amortization commences in the year the system development is completed. Software and other intangibles are tested for impairment on an annual basis.

Due (to) from Clients and Due (to) from Brokers and Dealers

Due (to) clients represents cash balances in client accounts. These amounts are due on demand.

Due from clients are debit positions in client accounts. The majority of the amounts relate to margin balances and pending trades.

Due (to) from brokers and dealers represents amounts related to trades which have been initiated but not settled.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Operating revenues related to foreign currency transactions are translated at exchange rates prevailing on the transaction dates. Realized and unrealized gains and losses arising from these translations are included in Other revenues in the Statement of Operations.

Financial Instruments

ATBSI has made the following designations:

- Cash, short term investments and inventory are classified as financial assets held for trading and measured at fair value.
- Clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable and due from affiliates are classified as

loans and receivables and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.
- Due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATB, due to affiliates and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.
- Achievement notes payable are measured at fair value and are marked to market at each balance sheet date, with changes in fair value recognized as salaries and employee benefit expense.

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs are expensed as incurred.

Impairment of Long-lived Assets

Long-lived assets include equipment, software and intangibles. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized is measured as the amount by which the carrying value exceeds its fair value.

3. Accounting Pronouncements Published but not yet Adopted

International Financial Reporting Standards

The Accounting Standards Board (AcSB) confirmed and communicated its decision to replace Canadian generally accepted accounting principles with International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB) on or by January 1, 2011. The Company will adopt International Financial Reporting Standards for the year ending March 31, 2012. Management has evaluated the effects of all current and pending pronouncements of the IASB on the Company and has developed a plan for implementation in conjunction with ATB.

4. Due (to) from 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 (to) from affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges.

The amounts due (to) from affiliates as at March 31 are as follows:

	2011	2010 (restated-note 1)
	$	$
Due from ATBIM	169,658	210,331
Due to ATBIA	(95,224)	(59,200)
	74,434	151,131

5. Other assets

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value (restated-note 1)
	$	$	$	$
Equipment	1,517,696	(121,363)	1,396,333	420,462
Software and other intangibles				
Computer software	14,852,106	(3,792,218)	11,059,888	4,759,763
System development costs	256,759	-	256,759	2,884,150
	15,108,865	(3,792,218)	11,316,647	7,643,913
Total Other assets	16,626,561	(3,913,581)	12,712,980	8,064,375

Amortization expense charged to the Statement of Operations and Comprehensive Loss for the year ended March 31, 2011, in respect of Equipment was $65,281 (2010 - $ 12,977) and Software and other intangibles was $1,580,769 (2010 - $1,061,591). Amounts for system development costs capitalized but not in use at March 31, 2011 were $256,759 (2010 - $525,852).

Notes to the Financial Statements, continued

6. Due to ATB

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 as at March 31 are as follows:

	2011	2010 (restated-note 1)
	$	$
Due to ATB	5,192,123	4,051,702

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2011 was 3.00% (2010 – 2.25%).

7. 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

	2011	2010 (restated-note 1)
Class A common shares #	114,240,100	94,739,200
Amount	$ 114,245,000	$ 94,745,000

During the year, the Company issued a combined 19,500,000 class A common shares, of which ATBSI issued 17,500,000 shares and ATBIS issued 2,000,000 shares, for combined cash proceeds of $19,500,000.

8. 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.

A summary of these transactions for the years ended March 31 is at follows:

Related party	Transactions	Recorded as	2011	2010 (restated-note 1)
			$	$
	Revenue			
ATBIM	Trailer Fees	Mutual fund commissions	17,270,542	13,034,079
ATBIM	Referral Fees	Client referral fees	1,668,675	1,297,457
ATBIM	Transaction Fees	Client referral fees	478,650	401,640
ATBIA	Insurance Referrals	Client referral fees	164,060	228,171
ATB	GIC Referral Fees	Other commissions	4,687,304	4,686,821
ATB	Interest Income	Interest revenue	25,771	18,431
			24,295,002	19,666,599
	Administration and selling expenses			
ATB	Processing	Processing fees	6,705,522	6,514,559
ATB	Selling	Processing fees	34,993	152,677
ATB	IT, Rent and Marketing	Other expenses	3,991,870	3,450,632
ATB	Professional Services	Professional fees	827,698	1,089,265
			11,560,083	11,207,133
ATB	Salaries Recovery	Processing fees	(117,490)	(340,169)
ATB	Processing Recovery	Processing fees	(202,705)	(493,086)
ATB	Training Recovery	Processing fees	(5,488)	(23,314)
ATB	Compliance Recovery	Processing fees	(252,095)	(655,065)
			(577,778)	(1,511,634)
	Interest expense			
ATB	Other Interest Expense	Interest expense	37,664	21,030
ATB	Standby Fees	Interest expense	71,514	-
			109,178	21,030

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.

Notes to the Financial Statements, continued

9. Commitments

ATBSI is committed to payments under service agreements for data processing services and software licenses, including support and maintenance services for various projects. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

Year	$
2012	576,400
2013	597,000
2014	597,000
2015	597,000
2016	597,000
2017 and thereafter	199,000
	3,163,400

10. Financial instruments

ATBSI's financial instruments consist of cash, short term investments, clients' cash held in trust, due (to) from clients, due (to) from brokers and dealers, client fees receivable, trailer fees receivable, inventory, due (to) from affiliates, accrued liabilities, variable compensation payable, due to ATB, deferred variable pay and achievement notes payable.

Financial risk management

ATBSI's financial instruments are exposed to a variety of financial risks: price risk, interest rate risk, currency 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.

Fair value

The fair value of clients' cash held in trust, short term investments, due (to) from clients, due (to) from brokers and dealers, client fees receivable, trailer fees receivable, inventory, due (to) from affiliates, accrued liabilities, variable compensation payable and amounts due to ATB approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is estimated based on discounting future cash flows by a discounting factor used for similar benefit plans. The fair value of achievement notes is estimated monthly based on a valuation formula and periodically by an independent fair value determination.

Market risk

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. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2011, US dollar denominated cash amounted to US$794,258, due from clients amounted to US$275,309, accrued liabilities amounted to US$43,377, due to clients amounted to US$292,948 and due to brokers and dealers amounted to US$538,902. Based on these foreign currency balances, a $0.01 change in US exchange rates would result in a foreign exchange gain or loss of approximately $1,948 (2010 - $3,400).

Interest rate risk: ATBSI is subject to interest rate cash flow risk as its amount due to ATB and short term investments are subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2011, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $51,921 (2010 - $24,000).

As at March 31, 2011 ATBSI held $41,472,499 (2010 - $29,726,056) in highly liquid treasury bills and money market mutual funds. At March 31, 2011 the treasury bills were earning yields of 0.90% and 0.92% until maturity on April 14, 2011 and May 12, 2011, respectively.

As at March 31, 2011, if interest rates were to change by 25bps, the change in interest income is approximately $103,681 (2010 - $58,744).

Price risk: ATBSI's exposure to financial market pricing risk is limited since there are no significant financial instruments held by the Company, which will fluctuate as a result of changes in market prices.

Credit risk

ATBSI is exposed to credit risk 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 and due from affiliates. ATBSI has cash deposits held with reputable financial institutions and cash and due from affiliate balances held with its parent company, ATB, an Alberta Crown Agent, and its subsidiaries, from which management believes the risk of loss to be insignificant.

Short term investments consist of Treasury bill holdings. The risk inherent in due from clients, due from brokers and dealers, client fees receivable and trailer fees receivable is effectively mitigated by ATBSI's diverse customer and trading counterparty base, and the creditworthiness of the counterparty. The Company's maximum credit exposure is $84,487,045 which is the sum of cash, short term investments, clients' cash held in trust, due from clients, due from affiliates, due from brokers/dealers, client fees receivable and trailer fees receivable.

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 obligation 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 due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATB and due to affiliates.

Notes to the Financial Statements, continued

11. Fair Value Measurements

The following is a summary of the ATBSI's financial instruments within the fair value hierarchy as at March 31, 2011:

	Financial instruments at fair value as at March 31, 2011			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	$	$	$	$
Cash	252,380	-	-	252,380
Short term investments	-	41,472,499	-	41,472,499
Inventory	-	-	6,241	6,241
Total financial assets	252,380	41,472,499	6,241	41,731,120
Achievement notes payable	-	-	(2,783,557)	(2,783,557)
Total financial liabilities	-	-	(2,783,557)	(2,783,557)

The fair value of achievement notes represents ATBSI's proportionate share of the total change in unrealized loss during the year with respect to the liability held at March 31, 2011 (note 14).

12. Capital Risk Management

The Company's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBSI's ability to operate as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives; and
- To maintain adequate risk adjusted capital as required by IIROC.

Margin requirements in respect of failed trades and/or working capital requirements cause regulatory capital requirements to fluctuate on a daily basis. Compliance with IIROC regulations requires the Company to maintain sufficient cash and other liquid assets on hand, which may also require capital injections from ATB. The Company's capital management strategy is to maintain at all times a risk adjusted capital (RAC) greater than zero and to maintain a cushion sufficient in size to satisfy the requirements of IIROC's early warning tests. The Company has met the minimum capital requirements throughout the year.

13. Employee Future Benefits

ATBSI provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Loss. For the year ended March 31, 2011, expenses related to the defined contribution plan provision were $1,703,883 (2010 - $1,753,864).

14. 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 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. 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 were no distributions paid in current or prior years.

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 only 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.

ATBSI records its proportionate share of the fair market value adjustments under other liabilities on the balance sheet. An expense of $1,891,477 (2010 - $582,916) was recorded as salaries and employee benefit expense to reflect the increase in the liability to ATBSI employees holding notes, based on the valuation of certain ATB subsidiaries. As at March 31, 2011, the total liability relative to these notes was $2,783,557 (2010 - $945,239).

15. Credit facility

ATBSI has access to a $15,000,000 Operating Loan Facility with ATB. The credit facility is unsecured. Interest on the facility is calculated based on prime less 0.25%, which is 2.75% at March 31, 2011. No amounts have been drawn on the facility at March 31, 2011 (2010 - $nil) and a standby fee of $71,514 (2010 - $nil) was paid during the year on the undrawn portion.

16. Comparative figures

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

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Year Ended March 31, 2011

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These Credit Union Deposit Guarantee Corporation (CUDGC) Financial Statements are a copy from the CUDGC 2010 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 balance sheets as at December 31, 2010 and 2009 and the statements of income and equity, comprehensive income and accumulated other comprehensive income, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 Corporation as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

March 9, 2011

Edmonton, Alberta

Balance Sheet
As at December 31

(thousands of dollars)	2010	2009
ASSETS		
Cash	$ 24,809	$ 23,106
Investments (Note 3)	140,985	129,893
Accrued interest receivable	890	707
Due from credit unions	4,724	4,537
Prepaids	43	53
Property and equipment (Note 4)	242	217
	$ 171,693	**$ 158,513**
LIABILITIES		
Accounts payable and accrued liabilities	$ 961	$ 759
Accrual for financial assistance (Note 5)	2,200	1,800
Deferred revenue	5	32
Income taxes payable	152	43
Future income taxes liability	919	572
Special contribution payable (Note 6)	18,153	17,625
Long-term unclaimed credit union balances	815	731
	23,205	**21,562**
Commitments and contingencies (Note 7)		
EQUITY		
Deposit guarantee fund	145,022	134,760
Accumulated other comprehensive income	3,466	2,191
	148,488	**136,951**
	$ 171,693	**$ 158,513**

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

Approved by the Board: Original signed by **Ken Motiuk,** C.Dir., Director — Original signed by **Loraine Oxley,** CA, ICD.D, Director

Financial Information

Statement of Income and Equity

For the Years Ended December 31

($ thousands)

(thousands of dollars)	2010	2010	2009
	Budget	**Actual**	**Actual**
DEPOSIT GUARANTEE FUND	(Note 11)		
Revenues:			
Deposit guarantee assessments	$ 28,923	$ 27,990	$ 26,945
Investment income (Note 3)	5,764	7,214	6,296
	34,687	**35,204**	**33,241**
Expenses:			
Provision for (recovery of) financial assistance (Note 5)	488	364	(11)
Special contribution (Note 6)	19,156	18,153	17,625
Administration expenses (Schedule 1)	6,289	6,217	6,093
	25,933	**24,734**	**23,707**
Income before income taxes	8,754	10,470	9,534
Income taxes (Note 8)	(104)	208	43
Net income for the year	8,858	10,262	9,491
Equity at beginning of year	133,222	134,760	125,269
Equity at end of year	**$ 142,080**	**$ 145,022**	**$ 134,760**

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

Statement of Comprehensive Income and Accumulated Other Comprehensive Income

For the Years Ended December 31

(thousands of dollars)	2010	2010	2009
	Budget	**Actual**	**Actual**
	(Note 11)		
Net income			
Deposit guarantee fund	$ 8,858	$ 10,262	$ 9,491
	8,858	**10,262**	**9,491**
Other comprehensive income			
Unrealized gains on available-for-sale financial instruments, net of future income tax of $678 (2009: $194)	-	2,549	730
Reclassification to net income, net of future income tax benefit of $339 (2009: $185)	-	(1,274)	(697)
	-	**1,275**	**33**
Comprehensive income	**$ 8,858**	**$ 11,537**	**$ 9,524**
Accumulated other comprehensive income at beginning of year	$	$ 2,191	$ 2,158
Other comprehensive income, net of future income tax of $339 (2009: $9)	-	1,275	33
Accumulated other comprehensive income at end of year	**$ -**	**$ 3,466**	**$ 2,191**

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

Statement of Cash Flows

For the Years Ended December 31

(thousands of dollars)	2010	2010	2009
	Budget	**Actual**	**Actual**
	(Note 11)		
Operating activities:			
Assessments received	$ 28,565	$ 27,803	$ 26,685
Investment income received	5,764	5,493	5,756
Financial assistance recovered (paid)	(488)	36	11
Interest and bank charges paid	(3)	(1)	(3)
Income taxes (paid) recovered	154	(90)	205
Paid to suppliers and employees	(6,197)	(5,850)	(5,986)
Special contribution paid	(17,737)	(17,625)	(16,700)
Cash flows from operating activities	**10,058**	**9,766**	**9,968**
Investing activities:			
Purchase of investments, net	(9,331)	(7,940)	(8,693)
Purchase of property and equipment	(150)	(123)	(121)
Cash flows used in investing activities	**(9,481)**	**(8,063)**	**(8,814)**
Cash inflow	577	1,703	1,154
Cash at beginning of year	22,082	23,106	21,952
Cash at end of year	**$ 22,659**	**$ 24,809**	**$ 23,106**

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

Notes to the Financial Statements

For the Years Ended December 31

NOTE 1 AUTHORITY AND PURPOSE

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 primary purpose of the Corporation is to guarantee the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2010, credit unions in Alberta held deposits including accrued interest totaling $16.5 billion (2009 - $16 billion).

To meet this primary purpose, the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation may assess credit unions to support the Deposit Guarantee Fund. The Deposit Guarantee Fund's statement of income includes deposit guarantee assessments received from credit unions, investment income, provision for financial assistance, special contribution, administration expenses and other related revenues and expenses.

The amount, timing and form of deposit insurance payments or financial assistance that may be required for credit unions is dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamation, arrangements, liquidation or dissolution. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Use of estimates

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, assessment revenue, and the fair values of investments. The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

(c) Cash

Cash is on deposit in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta 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, 2010, securities held in the CCITF have a rate of return of 0.8% per annum (2009: 1.4% per annum).

(d) Investments and investment income

The Corporation's investments policy permits investments in fixed income securities on a segregated basis and units of a bond pool. Investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance and Enterprise. The Corporation classified all investments in fixed income securities and the units in the Universe Fixed Income Pool (Bond Pool) as available-for-sale (AFS).

Investments are carried at fair value in accordance with section (h) below. Substantially all securities held are purchased with the intention to hold them to maturity. However, as securities may be sold prior to maturity, investments including the units in the Bond pool are classified as available-for-sale.

Notes to the Financial Statements, continued

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

Gains and losses on sale of investments are included with investment income in the year of sale. Interest income and dividend income are recognized when earned and are included in investment income. Any discounts or premiums are amortized over the life of the investment using the effective interest method.

When the fair value of an investment falls below its cost, and the decline is determined to be other-than-temporary, a loss equivalent to the difference between cost and current fair value is recorded against investment income in the statement of income. The assessment of other-than-temporary impairment considers the extent of the unrealized loss, the length of time that the security has been in a loss position, the financial condition of the issuer, and the Corporation's intent to hold the security to any anticipated recovery.

(e) Property and equipment

The following rates are designed to amortize the cost of property and equipment over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	three year straight-line
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

(f) Income taxes

The Corporation records income taxes based on the tax liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(g) Accrual for financial assistance

The accrual for financial assistance is comprised of three main components:

1. The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial assistance becomes likely and the amount can reasonably be estimated.
2. The Corporation recognizes financial assistance as a result of indemnity agreements that it has entered into with specific credit unions due to the outcomes described in Note 1.
3. A component of the accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

(h) Financial instruments

Classification of financial instruments

A financial instrument is a contract that establishes a financial asset for one party and a financial liability or equity instrument for the other party.

All financial instruments were classified either based on the type of instrument or the Corporation's intention regarding the instrument, as described below. Any new financial instruments are classified on inception. This classification determines how financial instruments are accounted for under the standards.

Held-for-trading

The Corporation classified cash resources as "held-for-trading" (or "HFT"). Financial assets and liabilities classified as HFT are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) recorded in "net income" in the Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as investment income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

Available-for-sale

The Corporation classified investments including pooled funds as "available-for-sale". Financial assets classified as "available-for-sale" are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not recognized in income but are recognized in accumulated other comprehensive income ("AOCI") until sale when the cumulative gain or loss on disposal is transferred to the Statement of Income as investment income.

Held-to-maturity

The Corporation may classify financial assets as "held-to-maturity" (or "HTM") if the assets have fixed or determinable payments, a fixed term to maturity and if the Corporation has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective interest rate method. The Corporation has not classified any financial assets as HTM.

Receivables

Accrued interest receivable and due from credit unions have been classified as receivables and are valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Financial liabilities

Accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances have been classified as financial liabilities and have been valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Transaction costs

Transaction costs relating to financial assets and liabilities are expensed as incurred.

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 securities and pooled funds classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statement of Income and reflected in net income as gains or losses once securities classified as available-for-sale are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. This Statement also presents the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Balance Sheet.

Other

The Corporation has recognized investment transactions relating to its securities portfolio on a trade date basis.

(i) International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) is replacing Canadian Generally Accepted Accounting with IFRS for all Publicly Accountable Enterprises. As the Corporation is classified as a Publicly Accountable Enterprise, the Corporation will be required to report under IFRS for the year ended December 31, 2011 with IFRS-compliant comparatives for the year ended December 31, 2010, including an opening Balance Sheet.

In the 2009 fiscal year, the Corporation conducted an analysis to identify at a high level the main differences between the Corporation's accounting policies and IFRS and the systems and processes that will need to be updated to issue IFRS-compliant financial statements. A project implementation plan was developed and the project team commenced work on the IFRS plan.

Notes to the Financial Statements, continued

In the 2010 fiscal year, the Corporation continued on the IFRS implementation plan and substantially completed the review of its accounting policies for any changes required. Certain accounting policies will result in a change for the Corporation, whereas in most other areas no policy changes are expected.

First-Time Adoption of IFRS

International Financial Reporting Standard 1 First-Time Adoption of International Financial Reporting Standards (IFRS 1) provides certain exemptions and elections for Canadian GAAP reporters converting to IFRS. The Corporation reviewed the key exemptions and elections in conjunction with each related standard. Adopting the relevant standards under IFRS 1 did not have a significant impact on the Corporation as the exemptions and elections were either not applicable or will not be applied.

NOTE 3 INVESTMENTS

The Corporation has classified all investments, including units in the Bond Pool, as available-for-sale. These investments are measured on the Balance Sheet at fair value.

a) Fair value

The fair value of the Corporation's financial instruments are summarized below:

As at December 31, 2010 securities directly held (excludes the units in the Bond Pool) have an average effective yield of 2.9% based on fair value (2009: 3.2%). These securities have the following term structure: under one year: 3% (2009: 6%), over one year and under five years: 56% (2009: 48%), over five years and under ten years: 41% (2009: 46%).

As at December 31, 2010, securities held by the Bond Pool have an average effective market yield of 4.4% per annum (2009: 5.1% per annum) and the following term structure based on principal amount: under one year: 10% (2009: 4%); one to five years: 30% (2009: 34%); five to ten years: 30% (2009: 32%); ten to twenty years: 15% (2009: 15%); and over twenty years: 15% (2009: 15%). The investment in units of the Bond Pool can be liquidated on one week's notice to AIMCo.

b) Fair value hierarchy

The table on the following page provides a summary of management's best estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Corporation's investments. The measure of reliability is determined based on the following three levels:

Level One: The fair value is based on quoted prices in active markets.

Level Two: The fair value is based on inputs other than quoted prices that are observable market data.

Level Three: The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	2010 Fair Value[1]	2010 Cost	2009 Fair Value[1]	2009 Cost
Directly held:				
Securities issued or guaranteed by:				
Canada	$ 35,361	$ 34,580	$ 30,460	$ 30,077
Provinces	32,157	30,388	39,372	37,905
Financial institutions	31,882	30,935	15,559	14,565
Asset backed securities and other[2]	13,589	13,110	18,933	18,846
Bond Pool	27,996	27,584	25,569	25,726
Total	**$ 140,985**	**$ 136,597**	**$ 129,893**	**$ 127,119**

1 Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Investment in bonds and units in the Bond Pool are valued at year end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields.

2 Other securities are shares of Credit Union Central Alberta Limited ($100,000) and Concentra Financial Services Association ($15,000). These securities have no specified maturity and are classified as available-for-sale. As there is no market for the shares, the fair value is estimated at amortized cost.

NOTE 3 INVESTMENTS (CONTINUED)

		Level One	Level Two	Level Three	Total
Investment:					
Fixed income securities, directly held		$ 15,520	$ 97,354	$ 115	$ 112,989
Bond Pool		-	27,996	-	27,996
2010	**- Total**	**15,520**	**125,350**	**115**	**140,985**
	- Percent	11%	89%	-	100%
2009	**- Total**[1]	**18,678**	**111,100**	**115**	**129,893**
	- Percent	14%	86%	-	100%
Increase/(decrease) during the year		**$ (3,158)**	**$ 14,250**	**$ -**	**$ 11,092**

1 The Corporation has changed the classification of certain financial instruments within the fair value hierarchy to be consistent with the classifications used in 2010.

c) Investment income

Investment income is as follows:

(thousands of dollars)	2010	2009
Interest, dividend income and derivative income	$ 5,601	$ 5,413
Net gain on sale of investments	1,613	1,185
Write down on investments	-	(302)
Total	**$ 7,214**	**$ 6,296**

d) Investment Risk Management

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo, an experienced independent fund manager to manage the portfolio. The Corporation's management is responsible for monitoring performance, recommending changes to the Corporate Investment Policy and fund manager. The Board of Directors is responsible for governance and strategic direction of the investment portfolio through its annual review and approval of the Corporate Investment Policy. The Corporation's segregated investment portfolio is managed with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Universe Bond Index and all Government indices over a four year period. This portfolio is comprised of high quality Canadian fixed income and debt related instruments.

The Bond Pool is managed with the objective of providing above average returns compared to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives.

Included in the Bond Pool are certain derivative contracts. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts held indirectly through pooled funds are used to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes.

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to support its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to ensure that risks are properly identified and that capital is adequate in relation to these risks. The principal investment risks to which the income and financial returns of the Corporation are exposed are described below.

Credit Risk

Credit risk related to securities arises from the possibility that the counterparty 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.

Notes to the Financial Statements, continued

To mitigate credit default risk, the Corporation has established specific rules to ensure the credit ratings of counterparties 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 and AAA for asset backed securities from two recognized credit rating agencies (Standard & Poors and Dominion Bond Rating Service) for its directly held investments. The pooled fund attempts to limit its credit exposure by dealing with counter-parties who have a good credit standing (A plus or greater.)

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 regular assessments and interest earned on its investments to support its financial obligation to guarantee deposits at credit unions. The Corporation's investment policy provides for a minimum of 15% of investments to be held in cash or financial instruments which mature within one year. All of the Corporation's investments are classified as available for sale and can readily be sold should the need arise.

Market Risk

Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Investments are carried on the balance sheet at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) to the value of investments are recorded as other comprehensive income, net of any other than temporary impairments which are recognized immediately in net income. The Corporation's fixed income investments are exposed to interest rate risk.

The Corporation is exposed to interest rate fluctuations which could affect cash flows, term deposits and fixed income securities at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets.

The fair value of the Corporation's investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the fair value is the prevailing rate of interest. An increase of one percent in interest rates will result in a decrease of $6,616,000 (2009: $6,181,000) in the fair value of total investments, whereas, a decrease of one percent in interest rates will result in an increase in the fair value of the same amount.

NOTE 4 PROPERTY AND EQUIPMENT

(thousands of dollars)			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 435	$ (381)	$ 54	$ 91
Computer equipment	214	(145)	69	43
Leasehold improvements	270	(216)	54	23
Computer software	315	(250)	65	60
Total	**$ 1,234**	**$ (992)**	**$ 242**	**$ 217**

NOTE 5 ACCRUAL FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1 and as described in Note 2(g), the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The amortized cost of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

(thousands of dollars)		2010		2009
Accrual for financial assistance:				
Balance at beginning of year	$	1,800	$	1,800
Change in accrual for financial assistance		400		-
Balance at end of year	**$**	**2,200**	**$**	**1,800**
Provision for (recovery of) financial assistance:				
Change in accrual for financial assistance	$	400	$	-
Financial assistance payments		(25)		-
Loan loss recoveries		(11)		(11)
Provision for (recovery of) financial assistance	**$**	**364**	**$**	**(11)**

NOTE 6 SPECIAL CONTRIBUTION PAYABLE

(thousands of dollars)		2010		2009
Balance at beginning of year	$	17,625	$	16,700
Payment of previous year's special contribution		(17,625)		(16,700)
Special contribution for the year		18,153		17,625
Balance at end of year	**$**	**18,153**	**$**	**17,625**

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11% of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

NOTE 7 COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Corporation is committed to a new lease which has been entered into for 5 years commencing September 2011.

The following amounts represent minimum payments over the next five years:

2011	141,000
2012	302,000
2013	302,000
2014	302,000
2015	302,000

Notes to the Financial Statements, continued

(b) Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation.

NOTE 8 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 assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims, or special contributions paid.

The Corporation's statutory income tax rate is 21% (2009: 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 income taxes, for the following reasons:

(thousands of dollars)	2010	2009
Expected income tax expense on pre-tax net income at the statutory rate	$ 2,199	$ 2,002
Add (deduct) tax effect of:		
Non-taxable assessments	(5,878)	(5,658)
Non-deductible special contribution	3,812	3,701
Non-taxable provision for financial assistance	76	(1)
Other	(1)	(1)
Income taxes paid (recovered)	**$ 208**	**$ 43**

At December 31, 2010 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $11,000 (2009: $51,000). The resulting future income taxes recoverable are reflected in the balance sheet. The Corporation's future effective income tax rate is 21% (2009: 21%).

(thousands of dollars)	2010	2009
Current income taxes	$ 199	$ 42
Future income taxes	9	1
Income taxes paid	**$ 208**	**$ 43**

NOTE 9 CAPITAL

The Corporation is not subject to externally imposed regulatory capital requirements. The capital of the Corporation consists of equity in the Deposit Guarantee Fund and the accrual for financial assistance. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's Policy on capital is that the Corporation will maintain the Deposit Guarantee Fund, including any amount established as an accrual for financial assistance above a minimum of 80 basis points or 0.80% of total credit union deposits and borrowings. The target range for the Deposit Guarantee Fund is between 100 to 150 basis points or 1.0% to 1.5% of total credit union deposits and borrowings. The actual amount of capital at December 31, 2010 is 89 basis points or 0.89% of total credit union deposits and borrowings. The Corporation manages capital through the following: quarterly reporting to the Board of Directors through its committees on financial results and capital, setting budgets and reporting variances to those budgets, setting policies for the Deposit Guarantee Fund management, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION
For the Years Ended December 31

(thousands of dollars)				2010	2009
	Directors' Fees or Salary[1]	Other Cash Benefits[2]	Other Non Cash Benefits[3]	Total	Total[7]
Chair[4,5]	$ 36	$ -	$ -	$ 36	$ 24
Board Members[4,5]	112	-	-	112	120
Current senior management:					
President and Chief Executive Officer[6]	263	97	31	391	381
Executive Vice President, Credit and Risk Management	190	49	20	259	250
Vice President, Finance and Corporate Services	186	48	25	259	252
Vice President, Strategic Planning and Information Services	166	44	18	228	223

1 Salary includes regular base pay.
2 Other cash benefits include bonus, perquisite amounts, computer grant and Employment Insurance refund.
3 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 including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.
4 The Chair receives a $10,000 annual retainer. The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Alberta Finance and Enterprise is a Board Member but receives no remuneration from the Corporation.
5 The minimum and maximum amounts paid to directors were $1,000 (2009 - $4,000) and $37,000 (2009 - $24,000) respectively. The average amount paid to directors was $19,000 (2009 - $18,000).
6 Under the terms of an employment contract ending in 2013, the President and CEO will be entitled to receive a retirement allowance equal to one year's annual base salary if he remains employed until the completion of this contract. To date, $72,000 has been accrued for this retirement allowance.
7 Certain 2009 directors' and management remuneration figures were restated from a cash basis to an accrual basis to reflect amounts earned in the year.

NOTE 11 2010 BUDGET
The 2010 budget was approved by the Board of Directors on September 29, 2010.

NOTE 12 COMPARATIVE FIGURES
The 2009 figures have been reclassified where necessary to conform to 2010 presentation.

Schedule of Administration Expenses

For the Years Ended December 31

(thousands of dollars)	2010 Budget	2010 Actual	2009 Actual
Deposit Guarantee Fund			
Salaries and benefits	$ 4,851	$ 4,906	$ 4,616
Professional fees	273	285	276
Rental charges	242	258	253
Office	234	202	215
Board and committee fees	145	148	144
Staff travel	205	141	170
Other	178	118	216
Amortization	101	98	163
Board and committee expenses	60	61	40
	$ 6,289	**$ 6,217**	**$ 6,093**

N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2011

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

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 balance sheet as at March 31, 2011 and the statement of operations and deficit for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 in my audit 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 Company as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 31 , 2011

Edmonton, Alberta

Balance Sheet

As at March 31, 2011

	($ thousands) 2011	2010
Assets		
Cash (Note 4)	$ 2,915	$ 2,884
Note receivable (Note 5)	43	36
	$ 2,958	$ 2,920
Liabilities		
Obligations under indemnities and commitments (Note 6)	$ 213	$ 521
Shareholder's Equity		
Share capital (Note 7)	5,769	5,769
Deficit	(3,024)	(3,370)
	2,745	2,399
	$ 2,958	$ 2,920

The accompanying notes are part of these financial statements.

On Behalf of the Board:

Rod Matheson__________________________
Sole Director

Statement of Operations and Deficit

Year Ended March 31, 2011

	($ thousands) 2011	2010
Revenue		
Interest and other	$ 40	$ 33
Expense		
General and administrative	2	9
Operating income before provision	38	24
Recovery of obligations under indemnities and commitments (Note 6)	308	104
Excess of revenue over expense for the year	346	128
Deficit, beginning of year	(3,370)	(3,498)
Deficit, end of year	$ (3,024)	$ (3,370)

Notes to the Financial Statements

March 31, 2011
($ 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 are prepared in accordance with Canadian generally accepted accounting principles. The transition of Canadian generally accepted accounting standards will impact the basis of accounting for the Company for 2012, however, the transition will not have a significant impact to the Company’s financial statements.

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

a) FINANCIAL STATEMENT PRESENTATION

A cash flow statement is not provided due to the limited nature of the Company’s operations. All information about the Company’s cash flows are contained within the financial statements.

b) FAIR VALUE

The carrying value of cash and accounts receivable approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of other financial assets and liabilities are provided in the applicable notes to the financial statements.

NOTE 4 CASH

Cash is deposited in the Consolidated Cash Investment Trust Fund which 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, 2011, securities held by the Fund have a time-weighted return of 1.1% per annum (March 31, 2010: 1.0% 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, 2011 is $43 (2010: $36). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium. The fair market value of the note at March 31, 2011 is estimated to be $109 (2010: $92) using the current interest rate in effect and adjusting the rate for a risk premium.

NOTE 6 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $213 at March 31, 2011 (2010: $1,158). 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)	
	2011	2010
Beginning balance	$ 521	$ 625
Recovery of obligations under indemnities and commitments	(308)	(104)
Ending balance	$ 213	$ 521

NOTE 7 SHARE CAPITAL

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

		($ thousands)	
		2011	2010
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

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, 2011.

NOTE 9 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2011 and 2010.

Financial Information

NOTE 10 BUDGET

The Company's annual budget appears in the 2010-11 Government and Lottery Fund 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.

Financial Information

Commercial Crown-controlled Corporation

Commercial Crown-Controlled Corporation

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Gainers Inc.

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Auditor's Report

AUDITOR
GENERAL
Alberta

To the Shareholder of Gainers Inc.

I have audited the consolidated balance sheets of the Gainers Inc. as at September 30, 2010 and 2009 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of Gainers Inc. management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Gainers Inc. as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

January 10, 2011

Edmonton, Alberta

Consolidated Balance Sheets
As at September 30

	($ thousands) 2010		2009	
Assets				
Cash	$	1	$	2
Investment in and amount due from former affiliate (Note 2)		-		-
	$	1	$	2
Liabilities				
Accounts payable and accrued liabilities	$	3	$	-
Principal and interest on prior years income taxes (Note 3)		11,334		11,334
Long-term debt (Note 4)		193,126		193,093
		204,463		204,427
Shareholder's Deficiency				
Share capital (Note 6)		1		1
Deficit		(204,463)		(204,426)
		(204,462)		(204,425)
	$	1	$	2

Approved by the Board of Directors

Original signed by Dan Harrington

The accompanying notes are part of these consolidated financial statements.

Consolidated Statements of Operations and Deficit

Year ended September 30

	($ thousands) 2010	2009
Expenses		
Interest on prior years' income taxes	$ -	$ -
Legal expenses	30	25
General and administrative	7	4
Net loss for the year	(37)	(29)
Deficit, beginning of year	(204,426)	(204,397)
Deficit, end of year	$ (204,463)	$ (204,426)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended September 30

	($ thousands) 2010	2009
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (37)	$ (29)
Net change in non-cash working capital items	3	(27)
	(34)	(56)
Financing activities		
Proceeds from long-term debt	33	56
Change in cash	(1)	-
Cash, beginning of year	2	2
Cash, end of year	$ 1	$ 2

Notes to the Consolidated Financial Statements

September 30

(in thousands of dollars, except per share amounts)

NOTE 1 BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

The consolidated financial statements of the company include the accounts of Gainers Inc. and its wholly owned subsidiary companies: Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the "company".

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 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 4 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

NOTE 2 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATES CONTINUED

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 4) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgement was subsequently paid from realizing on collateral security held for the debt.

NOTE 3 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 $50. These non-capital losses expire between 2010 and 2029.

NOTE 4 LONG-TERM DEBT

	($ thousands)	
	2010	**2009**
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	13,827	13,794
Accrued interest	34,491	34,491
	$193,126	$193,093

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, 2010 is estimated to be $nil.

PROVINCE OF ALBERTA

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

INTEREST

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

SECURITY

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

MASTER AGREEMENT

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 5 CONTINGENCIES

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 $14,084 (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 has 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.

NOTE 6 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) 2010	2009
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

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Statement of Remissions, Compromises and Write Offs

(Unaudited)
For the year ended March 31, 2011

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all remissions, compromises and write-offs of the Ministry of Finance and Enterprise made or approved during the fiscal year.

Remissions	
Personal Income Tax	$ 224,000
Compromises	
Corporate Income Tax	$ -
Write-offs	
Department of Finance and Enterprise	
Accounts Receivable	
Corporate Income Tax	$ 1,542,412
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	57,010
ATB Financial	
Loans and accounts receivable	33,228,000
	34,827,422
Total Remissions, compromises & write-offs	$ 35,051,422

Other Information

Statement of Borrowings Made Under Section 56(1) of the *Financial Administration Act*

(Unaudited)
For the year ended March 31, 2011

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

		Issue Principal	Proceeds
Payable in Canadian dollars:			
Promissory Notes		$ 6,585,000,000	$ 6,582,057,811
Debentures	409,86	409,865,000	417,162,500
		$ 6,994,865,000	$ 6,999,220,311

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)
For the year ended March 31, 2011

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 2010-11 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, 2011

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act*.

The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Finance and Enterprise on behalf of the Crown and Provincial Corporations for the year ended March 31, 2011, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recovered in debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Payments	Recoveries
CROWN GUARANTEES		
Gainers Inc. and subsidiaries	$ 57,010	$ -

LOCAL AUTHORITIES PENSION PLAN

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To the Minister of Finance and Enterprise 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 net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency 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 with accordance with Canadian generally accepted accounting principles, 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 in my audit 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 net assets available for benefits and liability for accrued benefits of the Local Authorities Pension Plan as at December 31, 2010, and the changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

April 15, 2011

Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	($ thousands)	
	2010	**2009**
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$17,648,692	$15,494,381
Contributions receivable (Note 6)	44,191	40,920
Receivable for investment sales	-	75
Accrued investment income and accounts receivable	-	6,138
	17,692,883	15,541,514
Liabilities		
Accounts payable	6,033	10,603
Liabilities for investment purchases	-	163,425
	6,033	174,028
Net assets available for benefits	17,686,850	15,367,486
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	22,322,100	19,366,100
Deficiency	$ (4,635,250)	$ (3,998,614)

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

	($ thousands)	
	2010	**2009**
Increase in assets		
Contributions (Note 8)	$ 1,503,231	$ 1,313,955
Net investment income (Note 9)		
Investment income	1,663,817	1,381,492
Investment expenses	(64,105)	(63,543)
	1,599,712	1,317,949
	3,102,943	2,631,904
Decrease in assets		
Pension benefits	608,197	569,021
Refunds to members	134,519	162,473
Transfers to other plans	10,647	25,911
Member service expenses (Note 11)	30,216	24,242
	783,579	781,647
Increase in net assets	2,319,364	1,850,257
Net assets available for benefits at beginning of year	15,367,486	13,517,229
Net assets available for benefits at end of year	$ 17,686,850	$ 15,367,486

The accompanying notes are part of these financial statements.

Other Information

Statement of Changes in Liability for Accrued Benefits

Year ended December 31, 2010

	($ thousands) 2010	2009
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 1,318,000	$ 1,189,500
Benefits earned	959,200	950,400
Net increase (decrease) due to actuarial assumption changes	1,526,700	(602,600)
	3,803,900	1,537,300
Decrease in liability for accrued benefits		
Benefits paid including interest	765,400	760,300
Net experience gains (losses) (Note 7 (b))	82,500	(657,900)
	847,900	102,400
Net increase in liability for accrued benefits	2,956,000	1,434,900
Liability for accrued benefits at beginning of year	19,366,100	17,931,200
Liability for accrued benefits at end of year (Note 7)	$ 22,322,100	$ 19,366,100

Statement of Changes in Deficiency

Year ended December 31, 2010

	($ thousands) 2010	2009
Deficiency at beginning of year	$ (3,998,614)	$ (4,413,971)
Increase in net assets available for benefits	2,319,364	1,850,257
Net increase in liability for accrued benefits	(2,956,000)	(1,434,900)
Deficiency at end of year (Note 13)	$ (4,635,250)	$ (3,998,614)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2010

(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.

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 Minister of Alberta Finance and Enterprise is the legal trustee of the Plan and Alberta Finance and Enterprise is management of the Plan. The Plan is governed by the Local Authorities Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 13) 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, 2010 were 8.06% (2009: 7.46%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 11.53 % (2009: 10.66%) of the excess for employees, and 9.06 % (2009: 8.46 %) of pensionable earnings up to the YMPE and 12.53 % (2009: 11.66%) of the excess for employers.

The contribution rates were reviewed by the Board in 2009 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have increased at January 1, 2011 as follows: 8.49% of pensionable salary up to the YMPE and 12.13% of the excess for employees, and 9.49% of pensionable salary up to the YMPE and 13.13% of the excess for employers.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE 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) DISABILTY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least two years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may receive the commuted value for all years of membership, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest. These payments are included as Refunds to members on the Statement of Changes in Net Assets Available for Benefits.

g) OPTIONAL SERVICE AND RECIPROCAL TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are recorded in the financial statements at fair value.

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.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may 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 methods used by AIMCo to determine the fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

i) Short-term securities, 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.

ii) Private fixed income securities and mortgages 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.

iii) The fair value of private equity and infrastructure investments 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 multiple earnings analyses.

iv) The fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party valuators.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

iv) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

v) 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.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits 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.

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 liability for accrued benefits, private investments, absolute return strategies, 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 liability for accrued benefits, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies, 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 liability for accrued benefits, private investments, absolute return strategies, 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 accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits 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.

NOTE 3 INVESTMENTS

	($ thousands)			
	2010		2009	
	Fair Value	%	Fair Value	%
Fixed income				
Deposits and short-term securities [(a)]	$ 273,784	1.6	$ 517,616	3.3
Bonds and mortgages [(b)]	5,242,176	29.7	4,257,224	27.5
	5,515,960	31.3	4,774,840	30.8
Inflation sensitive and alternative investments				
Real estate [(c)]	2,165,056	12.3	1,827,730	11.8
Real return bonds [(d)]	1,054,727	6.0	892,697	5.8
Infrastructure [(e)]	617,851	3.5	572,405	3.7
Timberland [(f)]	86,741	0.5	76,718	0.5
	3,924,375	22.3	3,369,550	21.8
Short horizon				
Canadian public equities [(g)]	2,232,468	12.6	1,892,796	12.2
Foreign public equities [(h)]	4,362,444	24.7	4,351,938	28.1
Absolute return strategy hedge funds [(i)]	656,952	3.7	590,835	3.8
	7,251,864	41.0	6,835,569	44.1
Long horizon				
Private equities [(j)]	956,493	5.4	514,422	3.3
Total investments [(k)]	**$ 17,648,692**	**100.0**	**$ 15,494,381**	**100.0**

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 Plan's board. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. 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 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).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $263,189 (2009: $475,477) and short-term securities of $10,595 (2009: $42,139). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits in CCITF had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

b) The bond and mortgage portfolio includes policy allocations to universe bonds totalling $874,476 (2009: $540,106), long government bonds totalling $3,562,833 (2009: $3,165,555) and mortgages totalling $804,867 (2009: $708,957). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing bonds and mortgages had an average effective market yield

Other Information

of 4.5% per annum (2009: 5.3% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 3%); 1 to 5 years: 12% (2009: 25%); 5 to 10 years: 15% (2009: 28%); 10 to 20 years: 15% (2009: 16%); and over 20 years: 55% (2009: 28%).

c) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

d) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

e) Infrastructure includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

f) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

g) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

h) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Plan's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets. A component of the Plan's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

i) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

j) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

k) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	**Level one**	**Level two**	**Level three***	**Total**
Fixed income	$ -	$ 4,700,498	$ 815,462	$ 5,515,960
Inflation sensitive and alternative investments	-	1,054,727	2,869,648	3,924,375
Short horizon	4,303,998	1,958,423	989,443	7,251,864
Long horizon	-	-	956,493	956,493
2010 - Total Amount	**$ 4,303,998**	**$ 7,713,648**	**$ 5,631,046**	**$ 17,648,692**
- Percent	**25%**	**43%**	**32%**	**100%**
2009 - Total Amount	$ 3,553,451	$ 7,306,377	$ 4,634,553	$ 15,494,381
- Percent	23%	47%	30%	100%
Increase during the year	**$ 750,547**	**$ 407,271**	**$ 996,493**	**$ 2,154,311**

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)
	2010
Balance, beginning of year	$ 4,634,553
Investment income	518,995
Purchases of Level 3 pooled fund units	1,437,063
Sale of Level 3 pooled fund units	(959,565)
Balance, end of year	**$ 5,631,046**

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. 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 5).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established the following asset mix policy ranges:

Fixed Income	20-50%
Inflation Sensitive/Alternatives	20-50%
Short Horizon	25-50%
Long Horizon	5-10%

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 Plan. 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. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign Currency Risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by $626 million (2009: $515 million).

Interest Rate Risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $697 million (2009: $590 million).

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's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the value of equity investments by approximately $663 million (2009: $588 million).

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 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.

NOTE 5 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty.

Interest rate derivatives provide for the Plan 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.

NOTE 5 DERIVATIVE CONTRACTS CONTINUED

Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified 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.

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.

Credit risk derivatives include credit default swaps allowing the Plan 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.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

($ thousands)

	2010					2009	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Net Fair Value (b)	Notional Amount (a)	Net Fair Value (b)
	%						
Equity replication derivatives	100	-	-	$ 5,924,270	$ 99,585	$ 4,692,921	$ 30,482
Interest rate derivatives	54	22	24	1,197,429	(10,156)	1,614,623	(21,183)
Foreign currency derivatives	100	-	-	2,821,943	26,059	2,789,653	59,549
Credit risk derivatives	46	14	40	489,753	(5,261)	494,217	(3,467)
Derivative related receivables, net					110,227		65,381
Deposits in futures margin accounts					100,652		95,059
Net derivative related investments (included in Note 3)					$210,879		$ 160,440

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining fair value of derivative contracts is described in Note 2 (e).

NOTE 6 CONTRIBUTIONS RECEIVABLE

($ thousands)

	2010	2009
Employers	$ 23,106	$ 21,498
Employees	21,085	19,422
	$ 44,191	$ 40,920

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2009 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $22,322,100 (2009: $19,366,100) 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 investment rate of return, inflation rate and salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% 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:

	2010	2009
	%	
Investment rate of return	6.00	6.50
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2010 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 2011.

b) NET EXPERIENCE GAINS

Experience gains of $82,500 (2009: losses of $657,900) arose from differences between the actuarial assumptions used in the 2009 valuation and 2010 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, 2010:

NOTE 7 LIABILITY FOR ACCRUED BENEFITS CONTINUED

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings (1)
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	1,529,600	0.9
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	964,000	1.2
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	3,568,600	3.0

(1) The current service cost as a percentage of pensionable earnings as determined by the December 31, 2010 extrapolation was 14.69%.

NOTE 8 CONTRIBUTIONS

	($ thousands) 2010	2009
Current and optional service		
Employers	$ 777,766	$ 677,825
Employees (a)	713,465	615,785
Transfers from other plans	12,000	20,345
	$ 1,503,231	$ 1,313,955

a) Includes $24,041 (2009: $19,789) of optional service contributions.

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class.

	($ thousands) 2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 233,055	$ (14,337)	$ 218,718	$ 588,278	$ (15,136)	$ 573,142
Canadian equities	337,955	(2,801)	335,154	503,318	(4,081)	499,237
Interest-bearing securities	538,433	(6,047)	532,386	247,149	(6,778)	240,371
Absolute return strategies	81,129	(6,054)	75,075	102,562	(6,392)	96,170
Real estate	236,192	(8,758)	227,434	(137,641)	(6,884)	(144,525)
Infrastructure	57,708	(6,875)	50,833	13,088	(6,861)	6,227
Timberland	1,384	(732)	652	(3,427)	(621)	(4,048)
Private equities	73,437	(17,772)	55,665	(25,726)	(16,479)	(42,205)
Real return bonds	104,524	(729)	103,795	93,891	(311)	93,580
	$ 1,663,817	**$ (64,105)**	**$ 1,599,712**	**$ 1,381,492**	**$ (63,543)**	**$ 1,317,949**

Income is comprised of income from investments in pooled funds managed by AIMCo.

Other Information

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments and per member are provided below:

	($ thousands)	
	2010	**2009**
Total investment expenses	$ 64,105	$ 63,543
Average fair value of investments	$ 16,571,537	$ 14,493,724
Percent of investments at average fair value	0.39%	0.44%
Investment expenses per member	$ 316	$ 327

NOTE 10 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2010	2009 restated (d)	Four-Year Compound Annualized Return	Ten-Year Compound Annualized Return	Seventeen-Year Compound Annualized Return
Time weighted rates of return [(a)]			*in percent*		
Actual gain	**9.9**	**9.6**	**1.7**	**4.7**	**7.2**
Policy benchmark gain [(b)]	11.6	11.1	3.2	5.0	7.3
Value lost by investment manager [(c)]	(1.7)	(1.5)	(1.5)	(0.3)	(0.1)

(a) The measure involves the calculation of the return realized by the Plan 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) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) For 2010, the investment manager is expected to deliver a return of 100 basis points, or 1%, net of fees, above the policy benchmark return on a continuous rolling four-year time horizon.

(d) All investment returns are provided by AIMCo. The actual return for 2009 has been restated to conform to changes provided by AIMCo subsequent to the completion and audit of the 2009 financial statements. As a result, the overall actual return in 2009 increased from 9.4% to 9.6%, resulting from an increase in estimated fair values and returns for inflation sensitive and alternative investments.

Other Information

NOTE 11 MEMBER SERVICE EXPENSES

	($ thousands) 2010	2009
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 27,861	$ 21,782
Alberta Local Authorities Pension Plan Corporation (ALAPP Corp.)	1,983	2,206
Actuarial fees	372	254
	30,216	24,242
Member service expenses per member	$ 149	$ 125

General administration costs and process improvement costs, including the Board costs were paid to APS and ALAPP 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 Minister of Alberta Finance and Enterprise.

ALAPP Corp. costs include remuneration to senior officials and the Board members as follows:

($ thousands)

	2010				2009
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair (d)	$ -	$ 18	$ -	$ 18	$ 39
Corporation Board Members (excluding Chair) (d)	-	160	-	160	133
President & Chief Executive Officer (e)	190	49	46	285	257
Vice-Presidents:					
Investments (f)	61	20	3	84	-
Policy and Research (g)	75	5	17	97	206
Stakeholder Relations (h)	91	-	22	113	-

(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 the Board meeting fees and is paid in accordance with the fee structure approved by the Minister of Alberta Finance and Enterprise.

(e) In 2009, this position was held for ten months, vacant for two months.

(f) This is a new 0.6 FTE position, vacant five months, in 2010.

(g) This is a new full-time position, vacant five months, in 2010.

(h) This is a new full-time position, vacant three months, in 2010, replacing the previous Communication Manager.

NOTE 12 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9 (b) and member service expenses per Note 11 are $94,321 (2009: $87,785) or $465 (2009: $451) per member and 0.53% (2009: 0.57%) of net assets under administration.

NOTE 13 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's deficiency is 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 $17,935,300 at December 31, 2010 (2009: $16,198,400).

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 totalling 6.23% of pensionable earnings shared equally between employers and employees until December 31, 2022. The special payments have been included in the rates in effect at December 31, 2010 (see Note 1(b)).

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by APS, ALAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

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MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

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Independent Auditor's Report

To the Minister of Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency 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 generally accepted accounting principles, 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 in my audit 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 net assets available for benefits and liability for accrued benefits of the Management Employees Pension Plan as at December 31, 2010, and the changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

April 15, 2011

Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	($ thousands)	
	2010	**2009**
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 2,563,649	$ 2,316,398
Accrued investment income and accounts receivable	161	329
Contributions receivable (Note 6)	627	825
	2,564,437	2,317,552
Liabilities		
Accounts payable	244	837
Liabilities for investment purchases	-	9,000
	244	9,837
Net assets available for benefits	2,564,193	2,307,715
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	2,961,280	2,790,914
Deficiency	$ (397,087)	$ (483,199)

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

	2010	2009
	($ thousands)	
Increase in Assets		
Contributions (Note 8)	$ 144,953	$ 144,721
Net investment income (Note 9)		
Investment income	244,018	307,231
Investment expenses	(7,224)	(6,805)
Transfers from other plans, net	4,853	14,616
	386,600	459,763
Decrease in Assets		
Pension benefits	122,572	114,834
Refunds to members	5,780	6,552
Member service expenses (Note 11)	1,770	1,527
	130,122	122,913
Increase in net assets	256,478	336,850
Net assets available for benefits at beginning of year	2,307,715	1,970,865
Net assets available for benefits at end of year	$ 2,564,193	$ 2,307,715

The accompanying notes are part of these financial statements.

Statement of Changes in Liability for Accrued Benefits

Year ended December 31, 2010

	($ thousands) 2010	2009
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 179,779	$ 176,661
Benefits earned	102,230	103,082
Net increase due to actuarial assumption changes (Note 7a)	69,371	52,962
	351,380	358,245
Decrease in liability for accrued benefits		
Benefits paid and transfers	123,499	106,770
Net experience gains (losses) (Note 7b)	57,515	(25,540)
	181,014	81,230
Net increase in liability for accrued benefits	170,366	251,475
Liability for accrued benefits at beginning of year	2,790,914	2,539,439
Liability for accrued benefits at end of year (Note 7)	$ 2,961,280	$ 2,790,914

The accompanying notes are part of these financial statements.

Statement of Changes in Deficiency

Year ended December 31, 2010

	($ thousands) 2010	2009
Deficiency at beginning of year	$ (483,199)	$ (568,574)
Increase in net assets available for benefits	256,478	336,850
Net increase in liability for accrued benefits	(170,366)	(251,475)
Deficiency at end of year (Note 13)	$ (397,087)	$ (483,199)

Notes to the Financial Statements

Year ended December 31, 2010

(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.

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 Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and Alberta Finance and Enterprise is management of the Plan. The Plan receives advice from the Management Employees Pension Plan Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 13) are funded by employee 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, 2010 were unchanged at 10.5% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 18.0% for employers.

The contribution rates are reviewed at least once every three years by the Minister of Alberta Finance and Enterprise, in consultation with the Board, based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have been set at January 1, 2011 as follows: 11.16% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% for employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are recorded in the financial statements at fair value.

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.

For private investments and absolute return strategies the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from values that would have been used had a ready market existed for these investments.

The methods used by AIMCo to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

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

ii) Private fixed income securities and mortgages 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.

iii) The fair value of private equity and infrastructure investments are estimated by managers or general partners of 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 multiple earnings analyses.

iv) The fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

c) INCOME RECOGNITION

Investment income and expenses are recognized on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) 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 swaps.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits 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.

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 liability for accrued benefits, private investments, absolute return strategies 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 liability for accrued benefits, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies 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 liability for accrued benefits, private investments, absolute return strategies 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 accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits 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.

NOTE 3 INVESTMENTS

	($ thousands)			
	2010		2009	
	Fair Value		Fair Value	
		%		%
Interest-bearing securities				
Deposits and short-term securities [a]	$ 21,085	0.8	$ 37,005	1.6
Bonds and mortgages [b]	646,220	25.2	696,989	30.1
	667,305	26.0	733,994	31.7
Equities				
Canadian public equities [c]	367,442	14.3	504,419	21.8
Foreign public equites[d]	1,028,848	40.1	764,892	32.9
Private equities [e]	90,657	3.6	44,364	1.9
Absolute return strategy hedge funds [f]	12,659	0.5	8,690	0.4
	1,499,606	58.5	1,322,365	57.0
Inflation sensitive				
Real estate [g]	144,637	5.7	124,121	5.4
Infrastructure [h]	56,754	2.2	44,200	1.9
Real return bonds [I]	195,347	7.6	91,718	4.0
	396,738	15.5	260,039	11.3
Total investments [J]	$ 2,563,649	100.0	$ 2,316,398	100.0

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 Plan's board. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to

NOTE 3 INVESTMENTS CONTINUED

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).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) totalling $19,492 (2009: $30,625) and short-term securities of $1,593 (2009: $6,380). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits in CCITF had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

b) The bond and mortgage portfolio includes allocations to universe bonds totalling $534,337 (2009: $583,464) and mortgages totalling $111,883 (2009: $113,525). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing long bonds and mortgages had an average effective market yield of 4.3% per annum (2009: 5.3% per annum) and the following term structure based on principal amount: under 1 year: 9% (2009: 3%); 1 to 5 years: 32% (2009: 34%); 5 to 10 years: 32% (2009: 35%); 10 to 20 years: 13% (2009: 13%); and over 20 years: 14% (2009: 15%).

c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Plan's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets. A component of the Plan's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

f) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

g) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

i) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

j) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two*:* Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three*:* Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three*	Total
Interest-bearing securities	$ -	$ 553,829	$ 113,476	$ 667,305
Equities	903,254	429,129	167,223	1,499,606
Inflation sensitive	-	195,347	201,391	396,738
2010 - Total Amount	$ 903,254	$ 1,178,305	$ 482,090	$ 2,563,649
- Percent	35%	46%	19%	100%
2009 - Total Amount	$ 750,489	$ 1,169,962	$ 395,947	$ 2,316,398
- Percent	32%	51%	17%	100%
Increase during the year	$ 152,765	$ 8,343	$ 86,143	$ 247,251

NOTE 3 INVESTMENTS CONTINUED

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands) 2010
Balance, beginning of year	$ 395,947
Investment income	46,157
Purchases of Level 3 pooled fund units	122,486
Sale of Level 3 pooled fund units	(82,500)
Balance, end of year	**$ 482,090**

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. 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 5).

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:

Interest-bearing securities (money market and fixed income)	10-40%
Equities	40-70%
Inflation sensitive	15-40%

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 Plan. 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. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (medium safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign Currency Risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by $121 million (2009: $85 million).

Interest Rate Risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $69 million (2009: $56 million).

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's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the value of equity investments by approximately $121 million (2009: $118 million).

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 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.

NOTE 5 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.

Interest rate derivatives provide for the Plan 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.

Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified 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.

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.

Credit risk derivatives include credit default swaps allowing the Plan 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.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

($ thousands)

	2010					2009	
	Maturity			Notional Amount (a)	Net Fair Value b)	Notional Amount (a)	Net Fair Value (b)
	Under 1 Year	1 to 3 Years	Over 3 Years				
		%					
Equity replication derivatives	100	-	-	$ 1,263,905	$ 23,006	$ 693,314	$ 7,443
Interest rate derivatives	58	19	23	323,879	305	290,558	(5,251)
Foreign currency derivatives	100	-	-	359,001	(630)	412,184	6,195
Credit risk derivatives	47	12	41	320,387	(3,453)	492,381	(3,543)
Derivative related receivables, net					19,228		4,844
Deposits in futures margin accounts					16,508		18,386
Net derivative related investments (included in Note 3)					$ 35,736		$ 23,230

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining fair value of derivative contracts is described in Note 2 (e).

At December 31, 2010, the notional value of equity index swap contracts includes amounts related to counter-parties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo totalling $4,773 (2009: $6,611). The net fair value of these contracts totalled $452 (2009: $4).

NOTE 6 CONTRIBUTIONS RECEIVABLE

	($ thousands)	
	2010	2009
Employers	$ 395	$ 521
Employees	232	304
	$ 627	$ 825

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,961,280 (2009: $2,790,914) 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 investment rate of return, inflation rate and salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% 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:

	2010	2009
	%	
Investment rate of return	6.40	6.60
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

* In addition to age specific merit and promotion increase assumptions.

b) NET EXPERIENCE GAINS

Net experience gains of $57,515 (2009: losses of $25,540) arose from differences between the actuarial assumptions used in the 2009 valuation and 2010 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.

NOTE 7 LIABILITY FOR ACCRUED BENEFITS CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2010:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	196,100	1.5
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	12,300	0.5
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	383,400	4.0

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2009 valuation was 20.1%.

NOTE 8 CONTRIBUTIONS

	($ thousands)	
	2010	2009
Current and optional service		
Employers	$ 90,272	$ 89,843
Employees	54,681	54,878
	$ 144,953	$ 144,721

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class.

	$ thousands					
	2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 70,493	$ (2,849)	$ 67,644	$ 113,183	$ (2,428)	$ 110,755
Canadian equities	67,934	(630)	67,304	144,172	(847)	143,325
Interest-bearing securities	64,915	(916)	63,999	45,916	(1,114)	44,802
Absolute return strategies	1,359	(94)	1,265	2,422	(94)	2,328
Real estate	15,798	(594)	15,204	(9,219)	(586)	(9,805)
Infrastructure	4,915	(615)	4,300	1,196	(545)	651
Private equities	5,768	(1,400)	4,368	81	(1,159)	(1,078)
Real rate of return bonds	12,836	(126)	12,710	9,480	(32)	9,448
	$ 244,018	$ (7,224)	$ 236,794	$ 307,231	$ (6,805)	$ 300,426

Income is comprised of income from investments in pooled funds managed by AIMCo.

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments and per member are provided below:

	($ thousands)	
	2010	2009
Total investment expenses	$ 7,224	$ 6,805
Average fair value of investments	2,440,024	2,138,427
Percent of investments at average fair value	0.30%	0.32%
Investment expenses per member	$ 779	$ 755

NOTE 10 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2010	2009 restated [d]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Seventeen-year Compound Annualized Return
Time-weighted rates of return [a]			(in percent)		
Actual gain (loss)	10.1%	15.1%	1.8%	7.1%	7.4%
Policy Benchmark gain (loss) [b]	*10.5%*	*15.1%*	*2.8%*	*7.3%*	*7.3%*
Value added (lost) by investment manager [c]	(0.4%)	0.0%	(1.0%)	(0.2%)	0.1%

(a) The measure involves the calculation of the return realized by the Plan 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) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In accordance with the SIP&G, the performance goal is for AIMCo to add 75 basis points, or 0.75%, net of fees, above the policy benchmark return.

(d) All investment returns are provided by AIMCo. The actual return for 2009 has been restated to conform to changes provided by AIMCo subsequent to the completion and audit of the 2009 financial statements. As a result, the overall actual return in 2009 increased from 15.0% to 15.1%, resulting from an increase in estimated fair values and returns for private equities and inflation sensitive investments.

NOTE 11 MEMBER SERVICE EXPENSES

Member service expenses of $1,770 (2009: $1,527) which include the Board costs in the amount of $54 (2009: $73), were charged to the Plan on a cost-recovery basis. These are $190 (2009: $169) per member.

The Plan's share of Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

NOTE 12 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are $9,000 (2009: $8,332) or $969 (2009: $924) per member and 0.35% (2009: 0.36%) of net assets under administration.

NOTE 13 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's deficiency is 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 $ 2,645,259 at December 31, 2010 (2009: $2,423,000).

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 totalling 7.8% of pensionable earnings shared between employees and employers until December 31, 2017. The special payments have been included in the rates in effect at December 31, 2010 (see Note 1(b)).

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

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Independent Auditor's Report

To the Minister of Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statement of the Provincial Judges and Masters in Chambers (Registered) Pension Plan, which comprise the net assets available for benefits and liability for accrued benefits as at March 31, 2011, and the statement of changes in net assets available for benefits 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 generally accepted accounting principles, 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 in my audit 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 net assets available for benefits and liability for accrued benefits of the Provincial Judges and Masters in Chambers (Registered) Pension Plan as at March 31, 2011, and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

June 13, 2011

Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at March 31, 2011

	($ thousands) 2011	2010
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 99,244	$ 91,154
Receivable from sale of investment	-	450
GST receivable	14	-
	99,258	91,604
Liabilities		
Accounts payable	48	26
Net assets available for benefits	99,210	91,578
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 5)	94,047	93,298
Surplus (Deficiency)	**$ 5,163**	**$ (1,720)**

See accompanying notes.

Other Information

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2011

	($ thousands) 2011	2010
Increase in assets		
Net investment income (Note 6)		
Investment income	$ 9,029	$ 16,065
Investment expenses	(260)	(255)
	8,769	15,810
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	1,088	1,055
Province of Alberta	4,328	2,437
	5,416	3,492
	14,185	19,302
Decrease in assets		
Pension benefits and refunds	6,454	6,170
Administration expenses (Note 9)	99	114
	6,553	6,284
Increase in net assets	7,632	13,018
Net assets available for benefits at beginning of year	91,578	78,560
Net assets available for benefits at end of year	**$ 99,210**	**$ 91,578**

See accompanying notes.

Notes to the Financial Statements

March 31, 2011

(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

For a complete description of the Provincial Judges and Masters in Chambers (Registered) Pension Plan (the Plan) and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan), reference should be made to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, *Court of Queen's Bench Act*, Revised Statutes of Alberta 2000, Chapter C-31, *Financial Administration Act*, Revised Statutes of Alberta 2000, Chapter F-12, and *Alberta Regulation 196/2001*, as amended. The Plan and Unregistered Plan are administered and accounted for by the Province of Alberta separately; however, the regulation allows for the financial report of both the Plan and the Unregistered Plan to be combined within the same report. Note 11 provides the financial report of the Unregistered Plan. The financial statements and notes of the Plan do not include the Unregistered Plan disclosed in Note 11.

The following description of the Plan is a summary only. For a complete description of the Registered Plan, reference should be made to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, *Court of Queen's Bench Act*, Revised Statutes of Alberta 2000, Chapter C-31, *Financial Administration Act*, Revised Statutes of Alberta 2000, Chapter F-12, and *Alberta Regulation 196/2001*, as amended.

a) GENERAL

Effective April 1, 1998, the Plan is a contributory defined benefit pension plan for Provincial Judges and Masters in Chambers of the Province of Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The registered number is 0927764. The Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and Alberta Finance and Enterprise is management of the Plan.

b) FUNDING POLICY

Current service costs are funded by the Province of Alberta and Plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2011 are 7.00% of *capped salary* for plan members and 14.65% of *capped salary for* the Province of Alberta. The rates are reviewed at least once every three years by the Province of Alberta based on recommendations of the Plan's actuary.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

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 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.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 and before April 1, 1998 if they retire with at least three years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained at age 55.

Members are entitled to an unreduced pension on service after March 31, 1998 if they retire with at least five years of service and have attained 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 of Alberta if assets are insufficient to pay for all benefits under the Registered Plan.

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 generally accepted accounting principles. 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective January 1, 2011 and onwards. The Plan will be adopting the new standards under CICA Section 4600 for the March 31, 2012 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (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.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded in the financial statements at fair value.

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.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may 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. A change in the estimated fair value of an investment is recorded in the period in which the new information is received.

The methods used to determine fair value of investments held by pooled investment funds are explained in the following paragraphs:

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

ii) Private fixed income securities and mortgages 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.

iii) The fair value of infrastructure investments is estimated by managers or general partners of 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 multiple earnings analyses.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

iv) The fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 3) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discount cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

v) 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.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits 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.

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 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 actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

ii) the estimated fair values of the Plan's private and alternative investments and real estate 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 actuarial value of accrued benefits 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 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 net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

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.

($ thousands)

	2011		2010	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Deposits and short-term securities (a)	$ 1,648	1.7	$ 749	0.8
Bonds and mortgages (b)	41,158	41.5	38,749	42.5
	42,806	43.2	39,498	43.3
Public equities				
Canadian (c)	13,132	13.2	13,002	14.3
Global developed (d)	34,821	35.1	31,689	34.8
Emerging markets (e)	248	0.2	216	0.2
	48,201	48.5	44,907	49.3
Alternative investments and hedge funds				
Absolute return strategy hedge funds (f)	963	1.0	532	0.6
Real estate (g)	3,937	4.0	3,286	3.6
Real return bonds (h)	511	0.5	462	0.5
Infrastructure (i)	2,826	2.8	2,469	2.7
	8,237	8.3	6,749	7.4
Total investments (j)(k)	$ 99,244	100.0	$ 91,154	100.0

NOTE 3 INVESTMENTS CONTINUED

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 Plan's advisory committee. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. 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 authority to independently purchase and sell securities in the pools and units of the pools within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $1,562 (2010: $536) and short-term securities of $86 (2010: $213). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

b) The bond and mortgage portfolio includes policy allocations to universe bonds totalling $37,106 (2010: $34,600) and mortgages totalling $4,052 (2010: $4,149). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At March 31, 2011, interest-bearing bonds and mortgages had an average effective market yield of 4.6% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 12% (2010: 3%); 1 to 5 years: 30% (2010: 33%); 5 to 10 years: 30% (2010: 36%); 10 to 20 years: 14% (2010: 13%); and over 20 years: 14% (2010: 15%).

c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Plan's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the Plan's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

i) Infrastucture includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

j) The following table provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland,infrastructureand private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	**Level One**	**Level Two**	**Level Three ***	**Total**
Interest bearing securities	$ -	$ 38,668	$ 4,138	$ 42,806
Public equities	31,779	13,776	2,646	48,201
Alternative investments and hedge funds	-	511	7726	8,237
2011 - Total Amount	**$ 31,779**	**$ 52,955**	**$ 14,510**	**$ 99,244**
- Percent	**32%**	**53%**	**15%**	**100%**
2010 - Total Amount	$ 28,266	$ 50,541	$ 12,347	$ 91,154
- Percent	31%	55%	14%	100%
Increase during the year	**$ 3,513**	**$ 2,414**	**$ 2,163**	**$ 8,090**

Other Information

NOTE 3 INVESTMENTS CONTINUED

*** Reconciliation of Level 3 Fair Value Measurements**

	($ thousands) 2011
Balance, beginning of year	$ 12,347
Investment income	1,363
Purchases of Level 3 pooled fund units	2,909
Sale of Level 3 pooled fund units	(2,109)
Balance, end of year	**$ 14,510**

k) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $929, or 0.9% of total investments (2010: $730 or 0.8% of total investments).

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at March 31, 2011:

	($ thousands)						
	2011					2010	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Net Fair Value (b)	Notional Amount (a)	Net Fair Value (b)
		%					
Equity replication derivatives (c)	100	-	-	$ 51,211	$ 174	$ 15,791	$ 264
Interest rate derivatives (d)	45	11	44	20,335	231	5,142	28
Foreign currency derivatives (e)	100	-	-	37,528	102	8,379	80
Credit risk derivatives (f)	50	15	35	23,208	(215)	9,254	(72)
Derivative related receivables, net					292		300
Deposits in futures margin accounts					637		430
Net derivative related investments					$ 929		$ 730

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable (positive fair value).

(b) The method of determining the fair value of derivative contracts is described in Note 2(e).

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

(d) Interest rate derivatives allow the Plan 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) 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.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. 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. The SIP&G is approved by the Plan 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. AIMCo 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 3).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Ministry established the following asset mix policy ranges:

	%		
	Policy Benchmark	Minimum	Maximum
Interest bearing securities	**42**	**40**	**50**
Deposits and short-term securities	1	-	5
Bonds and Mortgages	41	35	55
Equities and alternative investments	**58**	**50**	**65**
Public equities			
Canadian	15	10	25
Global developed	32	20	50
Emerging markets	-	-	5
Absolute return strategy hedge funds	2	-	5
Inflation sensitive			
Real estate	5	-	10
Real return bonds	-	-	
Infrastructure	4	-	6

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 Plan. 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 values of all investments reported in Note 3 are directly or indirectly impacted by credit risk to some degree. Interest bearing securities primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign currency risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by $4 million (2010: $3 million).

Interest rate risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. The Plan's exposure to interest rate risk is primarily held in its interest bearing securities. 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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $2 million (2010: $2 million).

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's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in the equity market indices, with all other variables held constant, would result in an approximate decrease in the value of public equity investments by approximately $4 million (2010: $4 million).

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 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.

NOTE 5 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Johnson Inc. and the results were then extrapolated to March 31, 2011.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $94,047 (2010: $93,298) 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 investment rate of return, inflation rate, and the salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment rate of return, net of investment expenses, and an additive of 0.5% 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:

	2011 %	2010 %
Investment rate of return	6.10	6.20
Inflation rate	2.25	2.25
Salary escalation rate	3.50	3.50

The following statement shows the principal components of the change in the value of accrued benefits.

	($ thousands) 2011	2010
Accrued pension benefits at beginning of year	$ 93,298	$ 89,419
Interest accrued on benefits	5,784	5,812
Net experience gains*	(2,855)	(1,499)
Benefits earned	3,428	3,207
Net benefits paid	(6,454)	(6,170)
Change in economic assumptions	846	2,529
Accrued pension benefits at end of year	**$ 94,047**	**$ 93,298**

NOTE 5 LIABILITY FOR ACCRUED BENEFITS CONTINUED

* Net experience gains of $2,855 (2010: $1,499) arose from differences between the actuarial assumptions used in the 2008 valuation and 2011 extrapolation for reporting compared to actual results.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The 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 Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2011:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	*($ millions)*	
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	4.9	1.3%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.5	Nil
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	1.0%	9.2	3.8%

* As a % of capped pensionable earnings

NOTE 6 NET INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class:

($ thousands)

	2011			2010		
	Gross income	Expenses	Net income	Gross income (Loss)	Expenses	Net income (Loss)
Foreign public equities	$ 3,122	$ (81)	$ 3,041	$ 7,323	$ (94)	$ 7,229
Canadian public equities	2,450	(12)	2,438	4,649	(19)	4,630
Interest bearing securities	2,634	(32)	2,602	4,011	(30)	3,981
Absolute return strategies	143	(9)	134	220	(10)	210
Real estate	421	(16)	405	(246)	(14)	(260)
Infrastructure	210	(27)	183	92	(27)	65
Real return bonds	49	-	49	16	-	16
Plan investment expenses	-	(83)	(83)	-	(61)	(61)
	$ 9,029	$ (260)	$ 8,769	$ 16,065	$ (255)	$ 15,810

Income is comprised of income from investments in pooled funds managed by AIMCo.

NOTE 7 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided directly by Alberta Investment Management Corporation are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments are provided below:

	($ thousands)	
	2011	**2010**
Total Investment Expenses	**$ 260**	**$ 255**
Average fair value of investments	95,199	84,730
Percent of investments at average fair value	0.27%	0.30%

NOTE 8 INVESTMENT PERFORMANCE (NET OF INVESTMENT EXPENSES)

The following is a summary of the investment performance results, net of fees, attained by the Plan:

	2011	**2010**	**Four-Year Compound Annualized Return**	**Eight-Year Compound Annualized Return**	**Seventeen-Year Compound Annualized Return**
Time weighted rates of return (a)			*in percent*		
Actual gain (b)	**9.7**	**20.2**	**1.7**	**7.4**	**7.2**
Policy benchmark gain (b)	9.3	16.5	2.5	7.4	7.1
Value gained (lost) by investment manager	0.4	3.7	(0.8)	0.0	0.1

(a) The measure involves the calculation of the return realized by the Plan 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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

NOTE 9 ADMINISTRATION EXPENSES

Administration expenses of $99 (2010: $114) comprised of general administration costs is paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 10 ACTUARIAL SURPLUS OR DEFICIT

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 Government of Alberta General Revenue Fund, or apply it towards reduction of the contributions for which the Government is liable.

If the Plan is terminated and the Plan's assets are not sufficient to pay all the benefits accrued under the terms of the Plan, up to the termination date, additional contributions are payable by the Government in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Plan, assets remain in the Plan, those assets shall be transferred to the General Revenue Fund of the Government of Alberta.

NOTE 11 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (UNREGISTERED PLAN)

The Unregistered Plan was established with effect from April 1, 1998 to collect contributions and to provide pension benefits to plan members in excess of the maximum benefits allowed by the Income Tax Act. The Unregistered Plan is a Retirement Compensation Arrangement (RCA) under the Income Tax Act and is administered by the Province separately. Accordingly, the Unregistered Plan's assets, liabilities and net assets available for benefits referred to below have not been included in these financial statements.

The Unregistered Plan is funded by contributions from plan members and the Province. The contribution rates in effect at March 31, 2011 were unchanged at 7.0% of pensionable salary in excess of capped salary for plan members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed the rate payable by plan members and is set by the Minister of Finance and Enterprise, taking into account recommendations of the Unregistered 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.

A summary of the net assets available for benefits for the Unregistered Plan as at March 31, 2011 and changes in net assets available for benefits for the year then ended is as follows:

	($ thousands) 2011	2010
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	$ 2,086	$ 3,182
Income tax refundable	6,491	6,941
	8,577	10,123
Liabilities		
Actuarial value of accrued benefits	83,218	81,826
Excess of liabilities over assets	(74,641)	(71,703)
Reserve Fund (a)	82,848	70,235
Net surplus (liabilities)	**$ 8,207**	**$ (1,468)**

a) Contributions from the Province of Alberta as determined by the Minister of Finance and Enterprise based on recommendations by the Unregistered Plan's actuary are collected and held in the Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund)*. These contributions are invested by the Province to meet future benefit payments of the Unregistered Plan over the long term.

	($ thousands) 2011	2010
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	$ 840	$ 870
Province of Alberta	840	870
Investment loss	(25)	(5)
	1,655	1,735
Decrease in assets		
Increase (Decrease) in actuarial accrued benefits	(1,392)	(7,750)
Pension benefits and refunds	(3,121)	(2,658)
Administration costs	(80)	(72)
	(4,593)	(10,480)
Increase in the Reserve Fund	12,613	15,520
Increase in net assets	9,675	6,775
Net liabilities at beginning of year	(1,468)	(8,243)
Net surplus (liabilities) at end of year	**$ 8,207**	**$ (1,468)**

An actuarial valuation for the Unregistered Plan was carried out as at December 31, 2008 by Johnson Inc. and was extrapolated to March 31, 2011.

The major assumptions used in the actuarial extrapolation to March 31, 2011, were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 5.5% per annum until the year 2016 and 6.1% per annum thereafter (see Note 5).

The Unregistered 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 Unregistered Plan.

* The March 31, 2011 financial statements of the Reserve Fund are available in the Alberta Finance and Enterprise 2011 Annual Report.

NOTE 12 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2011 presentation.

NOTE 13 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance and Enterprise based on information provided by APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan advisory committee.

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PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2010

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Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Minister of Finance and Enterprise

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 liability for accrued benefits and net assets available for benefits as at December 31, 2010, and the statement of changes in net assets available for benefits 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 generally accepted accounting principles, 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 in my audit 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 net assets available for benefits and liability for accrued benefits of the Public Service Management (Closed Membership) Plan as at December 31, 2010, and the changes in net assets available for benefits, for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

April 15, 2011

Edmonton, Alberta

Statement of Liability for Accrued Benefits and Net Assets Available for Benefits

As at December 31, 2010

	($ thousands)	
	2010	2009
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 4)	4,018	2,165
Accounts receivable	34	103
	4,052	2,268
Liabilities		
Accounts payable	-	3
	-	3
Net assets available for benefits	4,052	2,265
Liability for accrued Benefits		
Actuarial value of accrued pension benefits (Note 3)	$ 632,365	$ 658,777
Deficiency at end of year	$ (628,313)	$ (656,512)

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

	($ thousands)	
	2010	2009
Increase in assets		
Contributions from the Province of Alberta	$ 60,000	$ 60,078
Investment income	38	32
	60,038	60,110
Decrease in net assets		
Pension benefits	57,903	59,122
Administration expenses (Note 5)	348	303
	58,251	59,425
Increase in net assets	1,787	685
Net assets available for benefits at beginning of year	2,265	1,580
Net assets available for benefits at end of year	$ 4,052	$ 2,265

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2010
(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.

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 Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and Alberta Finance and Enterprise 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 generally accepted accounting principles. 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

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.

c) INCOME RECOGNITION

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

d) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits 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 accrued pension benefits. 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 accrued pension benefits, 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 actuarial value of accrued pension benefits (see Note 3(a)).

NOTE 3 ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Aon Hewitt and was then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $632,365 (2009: $658,777) 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:

	2010	2009
	%	%
Inflation rate	2.25	2.25
Discount rate	5.00	5.00
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

The following statement shows the principal components of the change in the actuarial value of accrued pension benefits.

	($ thousands)	
	2010	2009
Actuarial value of accrued pension benefits at beginning of year	$ 658,777	$ 658,466
Interest accrued on benefits	31,491	32,778
Net experience losses	-	6,525
Net benefits paid	(57,903)	(59,122)
Net change due to changes in actuarial assumptions	-	20,130
Actuarial value of accrued pension benefits at end of year	$ 632,365	$ 658,777

Experience losses of $nil (2009: $6,525) arose from differences between the actuarial assumptions used in the 2008 valuation and 2010 extrapolation for reporting compared to actual results.

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.

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, 2010:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the nominal discount rate assumption constant	1.0	$ 37,736
Nominal discount rate decrease holding the inflation rate assumption constant	(1.0)	52,557

NOTE 4 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, 2010, securities held by the Fund have a time weighted rate of return of 0.8% per annum (2009: 1.4% per annum).

NOTE 5 ADMINISTRATION EXPENSES

	($ thousands)	
	2009	2009
General administration costs	$ 331	$ 280
Investment management costs	17	10
Actuarial fees	-	13
	$ 348	$ 303

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 Minister of Alberta Finance and Enterprise.

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 $149 (2009: $126) per member.

NOTE 6 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise 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, 2010

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Independent Auditor's Report

To the Minister of Finance and Enterprise and the Public Service Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Pension Plan, which comprise the statement of net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency 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 generally accepted accounting principles, 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 in my audit 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 net assets available for benefits and liability for accrued benefits of the Public Service Pension Plan as at December 31, 2010, and the changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 9, 2011

Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	($ thousands) 2010	2009
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 6,159,292	$ 5,491,682
Contributions receivable (Note 6)	9,654	6,837
Accrued investment income and accounts receivable	151	2,834
Receivable from investment sales	-	7,000
	6,169,097	5,508,353
Liabilities		
Accounts payable	2,577	4,207
Liability for investment purchases	-	16,000
	2,577	20,207
Net assets available for benefits	6,166,520	5,488,146
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	8,233,671	7,217,342
Deficiency at end of year	$ (2,067,151)	$ (1,729,196)

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

	($ thousands) 2010	2009
Increase in assets		
Contributions (Note 8)	$ 454,772	$ 337,404
Net investment income (Note 9)		
Investment income	563,803	698,104
Investment expenses	(19,281)	(19,249)
Transfers from other plans	5,438	13,092
	1,004,732	1,029,351
Decrease in assets		
Pension benefits	255,077	235,801
Refunds to members	47,889	48,522
Transfers to other plans	11,807	18,519
Member service expenses (Note 11)	11,585	9,181
	326,358	312,023
Increase in net assets	678,374	717,328
Net assets available for benefits at beginning of year	5,488,146	4,770,818
Net assets available for benefits at end of year	$ 6,166,520	$ 5,488,146

The accompanying notes are part of these financial statements.

Statement of Changes in Liability for Accrued Benefits

Year ended December 31, 2010

	($ thousands) 2010	2009
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 476,554	$ 476,044
Benefits earned	296,604	310,688
Net increase due to actuarial assumption changes (Note 7a)	628,109	513,927
	1,401,267	1,300,659
Decrease in liability for accrued benefits		
Benefits paid	314,773	302,842
Net experience gains (losses) (Note 7b)	70,165	(261,169)
	384,938	41,673
Net increase in liability for accrued benefits	1,016,329	1,258,986
Liability for accrued benefits at beginning of year	7,217,342	5,958,356
Liability for accrued benefits at end of year (Note 7)	$ 8,233,671	$ 7,217,342

The accompanying notes are part of these financial statements.

Statement of Changes in Deficiency

Year ended December 31, 2010

	($ thousands) 2010	2009
Deficiency at beginning of year	$ (1,729,196)	$ (1,187,538)
Increase in net assets available for benefits	678,374	717,328
Net increase in liability for accrued benefits	(1,016,329)	(1,258,986)
Deficiency at end of year (Note 13)	$ (2,067,151)	$ (1,729,196)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2010

(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.

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 Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and Alberta Finance and Enterprise is management of the Plan. The Plan is governed by the Public Service Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 13) are funded equally by employers and employees at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect for 2010 were 9.10% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 13.00 % of the excess for employees. Employers provide matching contributions.

The contribution rates were reviewed by the Board in 2009 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. The contribution rates in effect January 1, 2011 remained unchanged at 9.10% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 13.00 % of the excess with matching contribution by Employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the Income Tax Act. The maximum service allowable under the Plan is 35 years. Pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

d) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of regular service and are not immediately entitled to a pension may receive the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions, if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

e) DISABILITY BENEFITS

Unreduced pensions may be payable to members who become totally disabled and have at least two years of service. Reduced pensions may be payable to members who become partially disabled and have at least two years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

f) DEATH BENEFITS

Death benefits are payable on the death of a member. 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 generally accepted accounting principles. 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

b) VALUATION OF INVESTMENTS

Investments are recorded in the financial statements at fair value.

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.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may 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 methods used by AIMCo to determine fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

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

ii) Private fixed income securities and mortgages 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.

iii) The fair value of private equity and infrastructure investments 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 multiple earnings analyses.

iv) The fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party valuators.

c) INCOME RECOGNITION

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discount cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) 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.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits 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.

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 liability for accrued benefits, private investments, absolute return strategies, 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 liability for accrued benefits, and

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

ii) the estimated fair values of the Plan's private investments, absolute return strategies, 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 liability for accrued benefits, private investments, absolute return strategies, 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 accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits 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.

NOTE 3 INVESTMENTS

	($ thousands)			
	2010		2009	
	Fair Value		Fair Value	
		%		%
Cash and absolute returns				
Deposits and short-term securities [a]	$ 140,167	2.3	$ 107,636	2.0
Absolute return strategy hedge funds [b]	180,626	2.9	156,420	2.8
	320,793	5.2	264,056	4.8
Bonds and mortgages [c]	1,389,955	22.6	1,216,926	22.2
Equities				
Canadian public equities [d]	990,638	16.1	795,686	14.5
Global developed public equities [e]	2,337,882	38.0	2,239,942	40.8
Emerging markets public equities [f]	143,547	2.3	135,239	2.5
Private equities [g]	100,591	1.6	72,639	1.3
	3,572,658	58.0	3,243,506	59.1
Inflation sensitive				
Real estate [h]	288,756	4.7	247,398	4.5
Real return bonds [i]	257,490	4.2	221,150	4.0
Infrastructure [j]	194,685	3.1	171,731	3.1
Collaterized commodity [k]	99,499	1.6	95,556	1.7
Timberland [l]	35,456	0.6	31,359	0.6
	875,886	14.2	767,194	13.9
Total investments [m]	**$ 6,159,292**	**100.0**	**$ 5,491,682**	**100.0**

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 Plan's investments, in each asset class, are held in pooled investment funds established and administered by

AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. 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 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).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund of $136,392 (2009: $114,523) and short-term securities of $3,775 (2009: ($6,887)). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits in CCITF had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

b) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

c) The bond and mortgage portfolio includes allocations to universe bonds totalling $490,797 (2009: $440,433), long government bonds totalling $656,591 (2009: $559,442) and mortgages totalling $242,567 (2009: $217,051). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2009: 5.3% per annum) and the following term structure based on principal amount: under 1 year: 5% (2009: 3%); 1 to 5 years: 18% (2009: 25%); 5 to 10 years: 20% (2009: 28%); 10 to 20 years: 15% (2009: 16%); and over 20 years: 42% (2009: 28%).

d) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

e) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Plan's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the Plan's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

f) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

g) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

NOTE 3 INVESTMENTS CONTINUED

h) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

i) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

j) Infrastructure includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

k) Collateralized commodity investments are passively managed with the objective of providing an investment return comparable to the Goldman Sachs Commodity Index (GSCI) Total Return Index. Exposure to the GSCI benchmark is obtained through the use of swaps, futures and other structured investments which are supported by floating rate fixed income instruments.

l) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

m) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

Investment:	Level one	Level two	Level three*	Total
	($ thousands)			
Cash and absolute returns	$ -	$ 136,392	$ 184,401	$ 320,793
Bonds and mortgages		1,147,388	242,567	1,389,955
Equities	2,256,499	1,032,976	283,183	3,572,658
Inflation sensitive	-	356,989	518,897	875,886
2010 - Total Amount	**$ 2,256,499**	**$ 2,673,745**	**$ 1,229,048**	**$ 6,159,292**
- Percent	**38%**	**42%**	**20%**	**100%**
2009 - Total Amount	$ 1,862,434	$ 2,556,180	$ 1,073,068	$ 5,491,682
- Percent	34%	47%	19%	100%
Increase during the year	**$ 394,065**	**$ 117,565**	**$ 155,980**	**$ 667,610**

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)
	2010
Balance, beginning of year	$ 1,073,068
Investment income	118,320
Purchases of Level 3 pooled fund units	277,410
Sale of Level 3 pooled fund units	(239,750)
Balance, end of year	**$ 1,229,048**

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. 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 5).

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:

Cash and absolute returns	0-10%
Fixed income (bonds and mortgages)	15-25%
Equities	50-62%
Inflation sensitive	13-23%

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 Plan. 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. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign Currency Risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by $303 million (2009: $272 million).

Interest Rate Risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $166 million (2009: $144 million).

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's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the value of equity investments by approximately $298 million (2009: $300 million).

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 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.

NOTE 5 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.

Interest rate derivatives provide for the Plan 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.

Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified 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.

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.

Credit risk derivatives include credit default swaps allowing the Plan 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.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

NOTE 5 DERIVATIVE CONTRACTS CONTINUED

($ thousands)

	2010					2009	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
	%						
Equity replication derivatives	100	-	-	$ 3,253,901	$ 56,056	$ 2,106,104	$ 17,217
Interest rate derivatives	52	24	24	631,830	(7,117)	538,457	(11,970)
Foreign currency derivatives	100	-	-	1,099,866	3,767	1,219,885	18,875
Credit risk derivatives	46	15	39	290,870	(3,127)	388,476	(2,766)
Derivative related receivables, net					49,579		21,356
Deposits in futures margin accounts					41,960		52,095
Net derivative related investments (included in Note 3)					$ 91,539		$ 73,451

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining fair value of derivative contracts is described in Note 2 (e).

At December 31, 2010, the notional value of equity index swap contracts includes amounts related to counter-parties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo totalling $10,230 (2009: $215,983). The net fair value of these contracts totalled $425 (2009: $454).

NOTE 6 CONTRIBUTIONS RECEIVABLE

($ thousands)

	2010	2009
Employers	$ 4,826	$ 3,408
Employees	4,828	3,429
	$ 9,654	$ 6,837

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2009 by Aon Hewitt and results were then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $8,233,671 (2009: $7,217,342) 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 investment rate of return, inflation rate, and the salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% 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:

	2010	2009
	%	
Investment rate of return	6.40	6.60
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

b) NET EXPERIENCE GAINS

Net experience gains of $70,165 (2009: losses of $261,169) arose from differences between the actuarial assumptions used in the 2009 valuation and 2010 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, 2010:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings (1)
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	529,000	0.76
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	265,000	1.13
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,251,000	2.90

* The current service cost as a percentage of pensionable earnings is 14.24% at December 31, 2010.

NOTE 8 CONTRIBUTIONS

	($ thousands)	
	2010	2009
Current and optional service		
Employers	$ 226,115	$ 169,285
Employees	228,657	168,119
	$ 454,772	$ 337,404

Other Information

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class.

($ thousands)

	2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 160,169	$ (8,495)	$ 151,674	$ 347,373	$ (8,005)	$ 339,368
Canadian equities	157,702	(1,230)	156,472	237,109	(1,358)	235,751
Interest-bearing securities	134,480	(1,764)	132,716	73,945	(2,249)	71,620
Absolute return strategies	21,839	(1,605)	20,234	28,151	(1,696)	26,455
Collateralized commodities	4,042	(143)	3,899	6,111	(96)	6,015
Real estate	31,521	(1,178)	30,343	(18,384)	(1,229)	(19,613)
Infrastructure	17,497	(2,079)	15,418	4,527	(2,012)	2,515
Timberland	566	(300)	266	(1,401)	(254)	(1,655)
Private equities	10,253	(2,307)	7,946	(739)	(2,274)	(3,013)
Real return bonds	25,734	(180)	25,554	21,412	(76)	21,412
	$ 563,803	**$ (19,281)**	**$ 544,522**	**$ 698,104**	**$ (19,249)**	**$ 678,855**

Income is comprised of income from investments in pooled funds managed by AIMCo.

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments and per member are provided below:

($ thousands)

	2010	2009
Total investment expenses	$ 19,281	$ 19,249
Average fair value of investments	5,825,487	5,119,800
Percent of investments at average fair value	0.33%	0.38%
Investment expenses per member	$ 248	$ 249

NOTE 10 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2010	2009 restated [(d)]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Seventeen-Year Compound Annualized Return
Time-weighted rates of return [(a)]			*in percent*		
Actual gain (loss)	**9.6**	**14.1**	**0.7**	**6.6**	**6.9**
Policy Benchmark gain [(b)]	*10.6*	*13.1*	*1.7*	*6.8*	*7.0*
Value added (lost) by investment manager [(c)]	(1.0)	1.0	(1.0)	(0.2)	(0.1)

(a) The measure involves the calculation of the return realized by the Plan 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) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In the SIP&G, the Public Service Pension board expects that the investments held by the Plan will return approximately 85 basis points, or 0.85%, above the policy benchmark over 4-year rolling time periods.

(d) All investment returns are provided by AIMCo. The actual return for 2009 has been restated to conform to changes provided by AIMCo subsequent to the completion and audit of the 2009 financial statements. As a result, the overall actual return in 2009 increased from 14.0% to 14.1%, resulting from an increase in estimated fair values and returns for private equities and inflation sensitive and alternative investments.

NOTE 11 MEMBER SERVICE EXPENSES

	($ thousands) 2010	2009
General administration costs	$ 11,174	$ 8,891
Board costs	28	35
Actuarial fees	116	88
Other professional fees	267	167
	11,585	9,181
Member service expenses per member	$ 149	$ 119

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 Minister of Alberta Finance and Enterprise.

NOTE 12 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are $30,866 (2009: $28,430) or $397 (2009: $367) per member and 0.50% (2009: 0.52%) of net assets under administration.

NOTE 13 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $6,577,000 at December 31, 2010 (2009: $6,037,000).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by the December 31, 2008 actuarial funding valuation are expected to be 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 from January 1, 2010 until December 31, 2023

The special payments have been included in the rates shown in Note 1(b).

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2010

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Independent Auditor's Report

To the Minister of Finance and Enterprise 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 net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency 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 Canadian generally accepted accounting principles, 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 in my audit 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 net assets available for benefits and liability for accrued benefits of the Special Forces Pension Plan as at December 31, 2010, and the changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 9, 2011

Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	2010	2009
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,488,917	$ 1,344,316
Contributions receivable (Note 6)	4,643	3,597
Accrued investment income and accounts receivable	18	190
	1,493,578	1,348,103
Liabilities		
Accounts payable	126	47
Liability for investment purchases	90	375
	216	422
Net assets available for benefits	1,493,362	1,347,681
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	2,044,927	1,700,948
Indexing Fund	29,132	21,660
	2,074,059	1,722,608
Deficiency at end of year		
Plan Fund (Note 8) *	$ (580,697)	$ (374,927)

* The Plan Fund deficiency is comprised of a pre-1992 deficiency of $264,778 (2009: $214,456) and a post-1991 deficiency of $315,919 (2009: $160,471).

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

($ thousands)

	2010			2009
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Net investment income (Note 9)				
Investment income	$ 141,222	$ 2,561	$ 143,783	$ 164,986
Investment expenses	(4,819)	(60)	(4,879)	(4,793)
	136,403	2,501	138,904	160,193
Contributions (Note 11)	82,669	4,971	87,640	66,244
	219,072	7,472	226,544	226,437
Decrease in assets				
Pension benefits	76,920	-	76,920	76,762
Refunds and transfers	2,498	-	2,498	3,800
Member service expenses (Note 12)	1,445	-	1,445	1,198
	80,863	-	80,863	81,760
Increase in net assets	138,209	7,472	145,681	144,677
Net assets available for benefits at beginning of year	1,326,021	21,660	1,347,681	1,203,004
Net assets available for benefits at end of year	$ 1,464,230	$ 29,132	$ 1,493,362	$ 1,347,681

The accompanying notes are part of these financial statements.

Statement of Changes in Liability for Accrued Benefits

Year ended December 31, 2010

($ thousands)

	2010			2009
	Pre-1992	Post-1991	Total	Total
Increase in liability for accrued benefits				
Interest accrued on opening liability for accrued benefits	$ 54,093	$ 65,103	$ 119,196	$ 108,585
Benefits earned	-	53,065	53,065	52,423
Net increase (decrease) due to actuarial assumptions changes	68,365	151,738	220,103	(96,815)
Net experience losses (Note 7b)	-	-	-	101,482
Cost-of-living indexing adjustments and interest	(4,916)	45,506	40,590	6,794
	117,542	315,412	432,954	172,469
Decrease in liability for accrued benefits				
Benefits, transfers and interest	56,725	24,778	81,503	82,831
Net increase in liability for accrued benefits	60,817	290,634	351,451	89,638
Liability for accrued benefits at beginning of year	783,958	938,650	1,722,608	1,632,970
Liability for accrued benefits at end of year (Note 7)	$ 844,775	$ 1,229,284	$ 2,074,059	$ 1,722,608

The accompanying notes are part of these financial statements.

Other Information

Statement of Changes in Deficiency

Year ended December 31, 2010

	2010			2009
($ thousands)	Pre-1992	Post-1991	Total	Total
Deficiency at beginning of year (Note 8)	$ (214,456)	$ (160,471)	$ (374,927)	$ (429,966)
Increase in net assets available for benefits	10,495	135,186	145,681	144,677
Net (decrease) increase in liability for accrued benefits	(60,817)	(290,634)	(351,451)	(89,638)
Deficiency at end of year (Note 16)	$ (264,778)	$ (315,919)	$ (580,697)	$ (374,927)

The accompanying notes are part of these financial statements.

Other Information

Notes to the Financial Statements

Year ended December 31, 2010

(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.

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 Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and Alberta Finance and Enterprise is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board).

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. Employees and employers are responsible for fully funding service after 1991.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation 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, 2010 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

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, 2008. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2010 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and cost of living adjustment (COLA) payments to the Plan are 14.55% of pensionable salary for employers and 13.45% for employees and 1.25% for the Province of Alberta. The contribution rates in effect January 1, 2011 remained unchanged from the rates in effect at December 31,2010

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1(i)) 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, 2010 were 0.75% of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary. Subject to the Employment Pension Plans Act, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991. To date, contributions and surplus have enabled the Indexing Fund to provide 60% COLA for service from 1992 to 2000.

c) RETIREMENT BENEFITS

The Plan provides for a lifetime pension of 1.4% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the Income Tax Act. An additional temporary bridge benefit of 0.6% for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the Plan is 35 years.

For a member who has a pension partner at retirement, the pension plan provides that the pension will continue in the amount of 65% to the surviving pension partner for their remaining lifetime. For a member who does not have a pension partner at retirement, the pension is payable for the member's lifetime with a guarantee that the pension payment will not cease until a minimum of 60 monthly payments have been made

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

g) GUARANTEE

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

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, 2011, 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 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 generally accepted accounting principles. 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are recorded in the financial statements at fair value.

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.

For private investments, real estate and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The methods used by AIMCo to determine fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

i) Short-term securities, 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.

ii) Private fixed income securities and mortgages 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.

iii) The fair value of private equity and infrastructure investments are estimated by managers or general partners of 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 multiple earnings analyses.

iv) The fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization and the discounted cash flows.

v) The fair value of timberland investments is appraised annually by independent third party valuators.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) 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.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits 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.

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 liability for accrued benefits, private investments, absolute return strategies, 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 liability for accrued benefits, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies, 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 liability for accrued benefits, private investments, absolute return strategies, 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 accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits 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.

NOTE 3 INVESTMENTS

	($ thousands)			
	2010		2009	
	Fair Value		Fair Value	
		%		%
Interest-bearing securities				
Cash and short-term securities [(a)]	$ 15,801	1.1	$ 18,210	1.4
Bonds and mortgages [(b)]	387,998	26.1	345,005	25.6
	403,799	27.2	363,215	27.0
Equities				
Canadian public equities [(c)]	270,732	18.2	257,670	19.2
Global developed public equities [(d)]	486,310	32.7	466,340	34.7
Private equities [(e)]	45,145	3.0	24,637	1.8
Emerging markets public equities [(f)]	55,428	3.7	33,528	2.5
	857,615	57.6	782,175	58.2
Inflation sensitive				
Real estate [(g)]	85,068	5.7	73,115	5.4
Infrastructure [(h)]	51,293	3.4	44,220	3.3
Real return bonds [(i)]	81,948	5.5	73,460	5.5
Timberland [(j)]	9,194	0.6	8,131	0.6
	227,503	15.2	198,926	14.8
Total investments [(k)]	$ 1,488,917	100.0	$ 1,344,316	100.0

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 Plan's board. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. 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 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).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund, totalling $14,880 (2009: $14,307) and short-term securities of $921 (2009: $3,903). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits in CCITF had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

b) The bond and mortgage portfolio includes allocations to universe bonds totalling $127,429 (2009: $105,422), long government bonds totalling $199,708 (2009: $185,926) and mortgages totalling $60,861 (2009: $57,075). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing long bonds and mortgages had an average effective market yield of 4.5% per annum (2009: 5.3% per annum) and the following term structure based on principal amount:

under 1 year: 4% (2009: 3%); 1 to 5 years: 17% (2009: 25%); 5 to 10 years: 19% (2009: 28%); 10 to 20 years: 15% (2009: 16%); and over 20 years: 45% (2009: 28%).

c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

f) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) Infrastructure includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

i) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

j) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

k) The table on the following page provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels

NOTE 3 INVESTMENTS CONTINUED

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	**Level one**	**Level two**	**Level three***	**Total**
Interest-bearing securities	$ -	$ 342,017	$ 61,782	$ 403,799
Equities	521,684	251,451	84,480	857,615
Inflation sensitive	-	81,948	145,555	227,503
2010 - Total Amount	**$ 521,684**	**$ 675,416**	**$ 291,817**	**$ 1,488,917**
- Percent	**35%**	**45%**	**20%**	**100%**
2009 - Total Amount	$ 454,254	$ 644,715	$ 245,347	$ 1,344,316
- Percent	34%	48%	18%	100%
Increase during the year	**$ 67,430**	**$ 30,701**	**$ 46,470**	**$ 144,601**

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)
	2010
Balance, beginning of year	$ 245,347
Investment income	25,528
Purchases of Level 3 pooled fund units	71,900
Sale of Level 3 pooled fund units	(50,958)
Balance, end of year	**$ 291,817**

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. 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 5).

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:

Interest-bearing securities	
Money market (cash and short-term securities)	0-10%
Fixed income (bonds and mortgages)	18-38%
Equities	37-78%
Inflation sensitive	4-30%

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 Plan. 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. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (medium safe investment) to AAA (safe investment with almost no counterparty credit risk).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Foreign Currency Risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency 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 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by $67 million (2009: $57 million).

Interest Rate Risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $48 million (2009: $44 million).

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's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the value of public equity investments by approximately $70 million (2009: $66 million).

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 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

NOTE 5 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.

Interest rate derivatives provide for the Plan 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.

Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified 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.

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.

Credit risk derivatives include credit default swaps allowing the Plan 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.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

($ thousands)

	2010					2009	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
		%					
Equity replication derivatives	100	-	-	$683,000	$ 12,857	$408,879	$ 4,096
Interest rate derivatives	53	23	24	146,085	(1,296)	131,978	(2,914)
Foreign currency derivatives	100	-	-	208,796	29	256,229	3,174
Credit risk derivatives	47	13	40	74,954	(806)	92,802	(658)
Derivative related receivables, net					10,784		3,698
Deposits in futures margin accounts					9,098		10,872
Net derivative related investments (included in Note 3)					$ 19,882		$ 14,570

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining fair value of derivative contracts is described in Note 2 (e).

NOTE 5 DERIVATIVE CONTRACTS CONTINUED

At December 31, 2010, the notional value of equity index swap contracts includes amounts related to counterparties that are public service pension Plans and Government of Alberta endowment funds managed by AIMCo totalling $2,760 (2009: $4,403). The net fair value of these contracts totalled $540 (2008: $3).

NOTE 6 CONTRIBUTIONS RECEIVABLE

	($ thousands) 2010	2009
Employers	$ 2,163	$ 1,617
Employees	2,015	1,481
Province of Alberta	465	499
	$ 4,643	$ 3,597

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Mercer (Canada) Limited and was then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,074,059 (2009: $1,722,608) 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 investment rate of return, inflation rate and salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% 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:

	2010	2009
	%	
Investment rate of return	6.10	6.90
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

b) NET EXPERIENCE LOSSES

Net experience losses of $nil (2009 :$101,482) arose from differences between the actuarial assumptions used in the 2008 valuation and 2010 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, 2010:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant **	1.0	119,000	0.7
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	41,376	2.0
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	276,590	4.5

* The current service cost as a % of pensionable earnings as determined by the December 31, 2009 valuation was 21.11%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 8 PLAN FUND DEFICIENCY

In accordance with the requirements of the Public Sector Pension Plans Act, a separate accounting is required of the unfunded liability with respect to service that was recognized as pensionable as at December 31, 1991.

The opening plan deficiency of the Pre-1992 was restated to $214,456 from $210,267 due to an increase of $4,189 resulting from a misallocation of investment expenses within the prior two years. The Post-1991 deficiency was restated from $164,660 to $160,471 due to the corresponding decrease of $4,189. There is no change to the opening deficiency of $374,927

The following table summarizes the fair value of net assets, liability for accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2010:

	($ thousands)			
	2010			2009
	Pre-1992	Post-1991	Total	Total
Plan Fund net assets available for benefits	$ 579,997	$ 884,233	$ 1,464,230	$ 1,326,021
Plan Fund accrued benefits	844,775	1,200,152	2,044,927	1,700,948
Plan Fund deficiency (Note 16)	$ (264,778)	$ (315,919)	$ (580,697)	$ (374,927)

As at December 31, 2010 the Indexing Fund held investments of $29,132 (2009: $21,660) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is $nil (2009: $nil).

This Plan Fund deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes.

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class.

($ thousands)

	2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 35,115	$ (1,916)	$ 33,199	$ 73,686	$ (1,741)	$ 71,945
Canadian equities	44,360	(383)	43,977	69,498	(464)	69,034
Interest-bearing securities	38,883	(494)	38,389	20,982	(621)	20,361
Real estate	9,296	(354)	8,942	(5,395)	(360)	(5,755)
Infrastructure	4,465	(555)	3,910	1,138	(521)	617
Timberland	147	(78)	69	(365)	(66)	(431)
Private equities	3,342	(1,036)	2,306	(859)	(991)	(1,850)
Real return bonds	8,175	(63)	8,112	6,301	(29)	6,272
	$ 143,783	$ (4,879)	$ 138,904	$ 164,986	$ (4,793)	$ 160,193

Income is comprised of income from investments in pooled funds managed by AIMCo.

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan. Investment expenses as a percentage of average fair value of investments assets and per member are provided below:

($ thousands)

	2010	2009
Total investment expenses	$ 4,879	$ 4,793
Average fair value of investment	$1,416,617	$1,272,009
Investment expenses as a percentage of net assets	0.34%	0.38%
Investment expenses per member	$ 783	$ 797

Other Information

NOTE 10 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2010	2009 restated [d]	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return	Seventeen -Year Compound Annualized Return
Time-weighted rates of return [a]			*(in percent)*		
Actual gain (loss)	10.2	13.5	1.2	6.6	7.0
Policy Benchmark gain (loss) [b]	10.5	13.5	2.1	6.7	7.1
Value added (lost) by investment manager [c]	(0.3)	0.0	(0.9)	(0.1)	(0.1)

(a) The measure involves the calculation of the return realized by the Plan 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) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In the SIP&G, the Special Forces Pension board expects that the investments held by the Plan will return approximately 100 basis points, or 1.0%, above the policy benchmark return.

(d) All investment returns are provided by AIMCo. The actual return for 2009 has been restated to conform to changes provided by AIMCo subsequent to the completion and audit of the 2009 financial statements. As a result, the overall actual return in 2009 increased from 13.3% to 13.5%, resulting from an increase in estimated fair values and returns for private equities and inflation sensitive investments.

NOTE 11 CONTRIBUTIONS

	($ thousands) 2010	2009
Current and optional service		
Employers	$ 34,643	$ 28,956
Employees	31,357	26,250
Unfunded liability		
Employers	8,462	3,528
Employees	8,462	3,528
Province of Alberta	4,083	3,644
Transfers from other plans (net)	633	338
	$ 87,640	$ 66,244

NOTE 12 MEMBER SERVICE EXPENSES

	($ thousands) 2010	2009
General administration costs	$ 1,352	$ 1,136
Actuarial fees	93	62
	$ 1,445	$ 1,198
Member service expenses per member	$ 232	$ 199

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 12 are $6,324 (2009: $5,991) or $1,016 (2009: $996) per member and 42% (2009: 0.44%) 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

	2010	2009
During 2010, the following amounts were paid:		
Remuneration		
Chair	$ 6,443	$ 7,634
Members	23,719	33,386
Travel, training and conference expenses		
Chair	2,480	5,727
Members	19,240	28,719

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

Transfer from the Indexing Fund to the Plan Fund is approved by the Board based on the Plan actuary's advice to finance the payment of cost-of-living increases for post-1991 service by the Plan Fund (see Note 1(i)).

As at December 31, 2010, cost-of-living increases for post-1991 service from January 1, 1992 to December 31, 2000 have been granted at 60% of the increase in the Alberta Consumer Price Index.

NOTE 16 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $1,418,465 at December 31, 2010 (2009: $1,371,637).

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 1.86% of pensionable salary shared equally between employees and employers until December 31, 2019. The special payment is included in the rates in effect at December 31, 2010 (see Note 1(b)).

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, 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, 2010

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Independent Auditor's Report

To the Minister of Finance and Enterprise

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 net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statement of changes in net assets available for benefits 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 generally accepted accounting principles, 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 in my audit 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 net assets available for benefits and liability for accrued benefits of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2010, and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General

May 9, 2011

Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	($ thousands)	
	2010	**2009**
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 16,516	$ 14,551
Refundable income tax (Note 1(f) and Note 6)	19,327	16,348
Contributions receivable	45	104
	35,888	31,003
Liabilities		
Income tax payable	48	41
Other payables	-	8
Liability for investment purchases	50	300
Due to (from) Alberta Pensions Services Corportion	36	(36)
	134	313
Net assets available for benefits	35,754	30,690
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	(116,427)	(104,478)
SRP Reserve Fund (Note 8)	41,114	34,272
Deficiency at end of year	$ (39,559)	$ (39,516)

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

	($ thousands) 2010	2009
Increase in assets		
Contributions (Note 9)	$ 5,971	$ 6,449
Net investment income (Note 10)		
Investment income	1,380	1,022
Investment expenses	(62)	(43)
	7,289	7,428
Decrease in assets		
Benefits and refunds	1,700	1,307
Administration expenses (Note 11)	525	414
	2,225	1,721
Increase in net assets	5,064	5,707
Net assets available for benefits at beginning of year	30,690	24,983
Net assets available for benefits at end of year	$ 35,754	$ 30,690

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2010

(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 Minister of Alberta Finance and Enterprise is the legal trustee of the Plan fund and Alberta Finance and Enterprise is management of the Plan.

a) GENERAL

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the *maximum pensionable salary limit* under the *Income Tax Act.* The Plan is supplementary to the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 8) 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, 2010 were unchanged at 10.5% 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 Minister of Alberta Finance and Enterprise. As a result of this review, the contribution rates have increased at January 1, 2011 to 11.16% of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *maximum pensionable salary limit* under the *Income Tax Act* for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan 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 benefits 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 generally accepted accounting principles. 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.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are stated at fair value. The method used to determine fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraph:

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

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts,credit default swaps, cross-currency interest rate swaps, and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discount cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) 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.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.. CONTINUED

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 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 accrued benefits. 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 actuarial value of accrued benefits in the year when actual results are known (see Note 7(a)).

NOTE 3 INVESTMENTS

	($ thousands)			
	2010		**2009**	
	Fair Value		**Fair Value**	
		%		%
Interest bearing securities				
Cash and short-term securities [a]	$ 647	3.9	$ 682	4.7
Bonds [b]	13,070	79.1	11,408	78.4
Real return bonds [c]	2,799	17.0	2,461	16.9
Total Investment [d]	$ 16,516	100.0	$ 14,551	100.0

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 Plan's Advisory Committee. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Plan's proportionate share of securities held in 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 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).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

b) The bond portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing bonds and mortgages had an average effective market yield of 4.4% per annum (2009: 5.1% per annum) and the following term structure based on principal amount: under 1 year: 10% (2009: 4%); 1 to 5 years: 30% (2009: 34%); 5 to 10 years: 30% (2009: 32%); 10 to 20 years: 15% (2009: 15%); and over 20 years: 15% (2009: 15%).

c) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

d) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are 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 Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three	Total
Interest-bearing securities	$ -	$ 16,516	$ -	$ 16,516
2010 - Total Amount	$ -	$ 16,516	$ -	$ 16,516
- Percent	0%	100%	0%	100%
2009 - Total Amount	$ -	$ 14,551	$ -	$ 14,551
- Percent	0%	100%	0%	100%
Increase during the year	$ -	$ 1,965	$ -	$ 1,965

Other Information

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. 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 (see Note 5).

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 33-45% fixed income instruments, 40-55% equities, and 7.5-19.5% alternative investments.

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 Plan. 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 are directly or indirectly impacted by credit risk to some degree. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (medium safe investment) to AAA (safe investment with almost no counterparty credit risk).

Interest rate risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $1.1 million (2009: $1.0 million).

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 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.

NOTE 5 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 or bond 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. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.

i) Interest rate derivatives provide for the Plan 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.

ii) Foreign exchange 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 include credit default swaps allowing the Plan 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.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

($ thousands)

	2010					2009	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%					
Interest rate derivatives	76	3	21	$ 2,941	$ 119	$ 1,634	$ 2
Foreign currency derivatives	100	-	-	512	18	985	72
Credit risk derivatives	48	11	41	7,920	(85)	9,430	(68)
Derivative related receivables, net					52		6
Deposits in futures margin accounts					4		13
Net derivative related investments (included in Note 3)					$ 56		$ 19

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining the fair value of derivative contracts is described in Note 2(e).

Other Information

NOTE 6 REFUNDABLE INCOME TAX

	($ thousands) 2010	2009
Refundable income tax at beginning of year	$ 16,348	$ 13,778
Tax on employees and employers contributions received	3,014	3,185
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(35)	(615)
Refundable income tax at end of year	$ 19,327	$ 16,348

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2010 as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $116,427 (2009: $104,478) 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 investment rate of return, inflation rate, and the salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% 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:

	2010	2009
	%	
Discount rate *	4.50	4.70
Inflation rate	2.25	2.25
Investment rate of return	6.00	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

* Discount rate is on an after-tax basis.

** In addition to age specific merit and promotion increases.

The following table shows the principal components of the change in the actuarial value of accrued benefits:

	($ thousands) 2010	2009
Actuarial value of accrued benefits at beginning of year	$ 104,478	$ 58,676
Interest accrued on opening liability for accrued benefits	4,836	4,501
Benefits earned	8,779	11,825
Net change due to changes in actuarial assumptions	5,150	(5,311)
Experience (gains) losses	(5,116)	36,094
Benefits and refunds paid	(1,700)	(1,307)
Actuarial value of accrued benefits at end of year	$ 116,427	$ 104,478

Experience gains of $5,116 (2009: losses of $36,904) arose from differences between the actuarial assumptions used in the 2009 valuation and 2010 extrapolation for reporting compared to actual results.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

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, 2010:

	($ thousands)		
	Changes in Assumptions	**Decrease in Net Assets**	**Increase in Benefits Earned**
	%	**$**	**$**
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	9,083	1,038
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	26,403	8,794
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	23,815	3,449

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 8).

NOTE 8 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1 (d)). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the Minister of Alberta Finance and Enterprise. The employer contribution rate is 11.4% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*. Effective July 1, 2011 the new rate will be 22.6% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the Minister of Alberta Finance and Enterprise 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, 2010, the SRP Reserve Fund had net assets with fair value totalling $41,114 (2009: $34,272), comprising of $41,114 (2009: $34,261) in portfolio investments and $nil (2009: $11) in receivables. The increase during the year of $6,842 (2009: increase $7,690) is attributed to contributions from employers of $3,317 (2009: $3,358) and investment gain of $3,525 (2009: gain $4,332).

NOTE 9 CONTRIBUTIONS

	2010 ($ thousands)	2009 ($ thousands)
Employers	$ 2,980	$ 3,240
Employees	2,991	3,209
	$ 5,971	$ 6,449

NOTE 10 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class:

	2010 Gross Income	2010 Expenses	2010 Net Income	2009 Gross Income (Loss)	2009 Expenses	2009 Net Income (Loss)
Interest-bearing securities	$ 1,380	$ (62)	$ 1,318	$ 1,022	$ (43)	$ 979
	$ 1,380	$ (62)	$ 1,318	$ 1,022	$ (43)	$ 979

($ thousands)

Income is comprised of income from investments in pooled funds managed by AIMCo.

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments are provided below:

	2010 ($ thousands)	2009 ($ thousands)
Total investment expenses	$ 62	$ 43
Average fair value of investments	$ 15,534	$ 12,872
Percent of investments at average fair value	0.40%	0.33%
Investment expenses per member	$ 37	$ 28

NOTE 11 ADMINISTRATION EXPENSES

Administration expenses of $525 (2009: $414) were charged to the Plan on a cost recovery basis.

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

NOTE 12 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 10(b) and administration expenses per Note 11 are $587 (2009: $457) or $348 (2009: $292) per member and 1.64% (2009: 1.49%) of net assets under administration.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 14 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise 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.

Other Information

Appendix:
Performance Measures Methodology

Performance Measures Methodology

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Performance Measures
(Methodology, Sources and Notes)

1.a Alberta's Credit Rating (Blended Credit Rating For Domestic Debt)

METHODOLOGY

Credit rating is an independent credit rating agency's assessment of the future ability of an organization to repay its long term debt. The highest possible rating is AAA.

Alberta is rated by three agencies:

» Standard and Poor's (S&P) – AAA

» Moody's Investor Service (Moody's) – AAA

» Dominion Bond Rating Service (DBRS) – AAA

SOURCE

Three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's Rating Services

RATING COMPARISON TABLE

Year	Alberta	Ontario	B.C.	Canada
2010	AAA	AA-	AAA	AAA

1.b Sustainable operating spending growth (operating spending relative to population plus CPI).

METHODOLOGY

» Growth in operating expense is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.

» Population growth is calculated by taking the annual change in population at the mid-point of the fiscal year (October 1).

» 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 Finance and Enterprise.

2.a Provincial tax load for a family of four

METHODOLOGY

Calculations are derived from the Finance and Enterprise Interprovincial Tax and Health Care Premium Comparison model, based on provincial tax parameters known as of February 10, 2011. The model calculates the provincial tax load of all provinces, subject to a set of assumptions that are applied uniformly across provinces.

Calculations are based on the following assumptions:

» Business is assumed to bear between 25 per cent and 60 per cent of the provincial sales tax, depending upon the provincial tax regime.

» Health care insurance premiums are net of premium subsidies.

» In provinces that impose payroll taxes, 75 per cent is assumed to be borne by employees and 25 per cent by employers. The same 75/25 split is assumed for the net health care insurance premiums.

» Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 litres for two-income families.

» Registered Retirement Savings Plan/Registered Pension Plan (RRSP/RPP) contributions of $1,000, $9,700 and $16,800 are included in the calculation of personal income tax for the $30,000, $75,000 and $125,000 families, respectively.

- For two-income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- The children in each family are assumed to be 6 and 12 years old.

The tax load is calculated for each of the $30,000, $75,000, and $125,000 family profiles. The "Lowest in Canada" result is determined by calculating the average tax load of the three family profiles for each province and then comparing the average tax loads of each province to determine which province has the lowest overall tax load.

Tobacco taxes were included in the comparison up to 2007, but were dropped from the comparison beginning in 2008. Tobacco taxes are levied as part of the province's Tobacco Reduction Strategy and are more representative of the province's health initiatives than the province's tax competitiveness. In addition, since most Albertans do not smoke, including tobacco taxes in the comparison is not representative of the average Albertan.

SOURCE

Alberta Finance and Enterprise, Interprovincial Tax and Health Care Insurance Premium Comparison, 2011, p. 152 of Budget 2011.

2.b Provincial tax load on businesses

METHODOLOGY

Provincial tax load, or tax effort, compares actual tax revenues generated by a province to the revenue the province would generate if it taxed at national-average tax rates. Because this is a relative measure, individual provincial tax load figures can change because of changes within the specific province and/or because of changes made in other provinces. Business taxes include business income taxes, capital taxes and insurance corporation taxes.

Each year, provinces report their tax revenues by category to the federal government as part of the reporting requirements for the Equalization Program. The steps to calculate business provincial tax loads are:

- National-average tax rates are calculated by dividing the total national tax revenue for each business tax category by the corresponding national tax base as calculated by Federal Finance. The tax base for corporate income taxes, for example, is corporate profits.
- The revenue the Province would generate if it taxed at national rates is equal to the national average tax rate multiplied by the provincial tax base for each of the tax categories.
- The tax load for any province is equal to the ratio of its actual provincial business revenues divided by the results of the previous calculation (revenues at national average tax rates) multiplied by 100.

SOURCE

Federal Department of Finance – December 2010 estimates.

3.a Manufacturing and business service industry GDP: the value of real Gross Domestic Product of manufacturing and business and Commercial Services (in chained 2002 dollars)

METHODOLOGY

The information for this performance measure is taken from the GDP by Industry in Millions of Dollars table, published by Statistics Canada. GDP figures for the following eight industries are combined in this performance measure: manufacturing; information and cultural industries; professional, scientific and technical services; transportation and warehousing; arts, entertainment and recreation; accommodation and food services; finance and insurance; and administrative and support, waste management and remediation services.

INDUSTRY	AGGREGATE CLASSIFICATION	GDP IN MILLIONS OF DOLLARS (2010)
Manufacturing	Manufacturing	$14,183
Information and cultural industries	Business and Commercial	$ 5,145
Professional, scientific and technical services	Business and Commercial	$ 9,368
Administrative and support, waste management and remediation services	Business and Commercial	$ 3,701

INDUSTRY	AGGREGATE CLASSIFICATION	GDP IN MILLIONS OF DOLLARS (2010)
Transportation and warehousing	Business and Commercial	$ 9,883
Arts, entertainment and recreation	Business and Commercial	$ 1,120
Accommodation and food services	Business and Commercial	$ 4,198
Finance and insurance	Business and Commercial	$ 8,416

Gross Domestic Product (GDP) is the total market value of all goods and services produced during a given year. GDP is also referred to as economic output. To avoid counting the same output more than once, GDP includes only final goods and services – not those that are used to make another product.

For this performance measure, GDP is measured in real dollars. Real GDP is a measure of the volume of production. To measure this concept, GDP expenditure-based components are adjusted to eliminate the effect of price change. This process is known as deflation.

In November 2007, all real GDP estimates were revised by Statistics Canada with the base year changing from 1997 to 2002. The key components of GDP are:

» Consumption (durable goods, nondurable goods)

» Investment (business investment, residential construction, change in inventories)

» Government Spending

» Exports

» Imports

Measuring GDP:

GDP = Consumption + Investment + Government Spending + (Exports − Imports).

SOURCE

Statistic Canada – Provincial GDP by Industry.

3.b **Manufacturing and service industry investment: the value of new capital expenditures on construction and machinery and equipment in Alberta's manufacturing and services industry (excludes utilities).**

METHODOLOGY

Manufacturing is a separate industry and the sub-industries included under service industries are:

CAPITAL EXPENDITURES (ALBERTA)	IN BILLIONS OF DOLLARS (2009)
Transportation and Warehousing	$4.67
Information and Cultural Industries	$1.36
Finance and Insurance	$1.26
Professional, Scientific and Technical Services	$0.74
Administrative and Support, Waste Management	$0.33
Arts, Entertainment and Recreation	$0.34
Accommodation and Food Services	$0.82

Statistics Canada surveys all industries once a year about their actual past years' capital investments, as well as their intended investments for the current year. 27,000 Canadian companies are surveyed with a response rate in excess of 75 per cent. Data are gathered once a year between November and February and reported in February.

Background:

» Canada's total capital investment by all industries in 2009 was $306.6 billion.

» Canada's capital investment in manufacturing and service industries in 2009 was $80.3 billion.

» Alberta's total capital investment by all industries in 2009 was $65.7 billion.

» Alberta's capital investment in manufacturing and service industries in 2009 was $11.1 billion.

SOURCE

Statistics Canada, Private and Public Investment in Canada, Intentions.

4.a Ratio of amounts added to net revenue to costs of administration (as a measure of efficiency)

METHODOLOGY

The measure is calculated by dividing the additional revenue obtained through administrative effort by Tax and Revenue Administration's (TRA) 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 GOA IMAGIS expense tracking system.

NOTES

Through a combination of audit activities, collection of overdue accounts, and the revision of returns and claims, TRA recovers tax revenues that otherwise may be lost. This measure is calculated by dividing the total additional revenue obtained because of these efforts by Tax and Revenue Administration's operating budget. A declining target reflects increased compliance.

4.b Percentage of revenue obtained through self-compliance (as a measure of effectiveness)

METHODOLOGY

Revenue obtained as a result of voluntary compliance is calculated by subtracting the revenue obtained through TRA efforts (intervention) from total revenue. The voluntary revenue is then compared to total revenue and expressed as a percentage.

SOURCE

Data comprises a summary of revenue obtained through TRA revising returns and claims, collecting overdue accounts, and recovering taxes through audit activity. Data is generated through existing ORACLE and IMAGIS system reports, and ad hoc reporting created for the purpose. This data is compared to total revenue received under all tax programs as reported in the IMAGIS revenue accounts.

NOTES

Voluntary compliance means that taxpayers accurately complete and submit their tax information. This measure is calculated by dividing the tax revenue obtained as a result of voluntary compliance by total tax revenue. Improved information and expanded audit coverage has improved self-compliance.

5.a The Alberta Heritage Savings Trust Fund policy portfolio will achieve at least a five year annualized rate of return of CPI plus 4.5 per cent.

METHODOLOGY

The performance measurement system employed by AIMCo calculates a total return of the Heritage Fund and the Heritage Fund investment policy benchmark.

The Minister establishes a policy portfolio which is comprised of target allocations to various asset classes. The benchmark is made up of market indices chosen to represent the various asset classes in the policy portfolio.

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 investment policy benchmark and annualized five year CPI plus 4.5 per cent.

SOURCE

The Heritage Fund return is calculated within the Sylvan module of SS&C by AIMCo's Performance Measurment Group. Benchmark return is calculated using policy benchmark weights provided by the Heritage Funds' statement of investment policy and goals. Return series of indices used to calculate the policy benchmark are sourced from AIMCo's benchmark providers. CPI is obtained from either the Bank of Canada web site or from Bloomberg.

NOTES

This measure is used to determine whether the long-term investment policy is achieving the returns expected based on long term capital market assumptions. It is measured by comparing the return on the policy benchmark to the real return target. The total long-term expected return on the Fund would also include the additional 1 per cent annualized return added through active management in measure 5.b.

5.b Value-added through active investment management, for the endowment and pension funds, annualized over a five year period

METHODOLOGY

The performance measurement system employed by AIMCo calculates a total return for each of the endowment funds.

Endowment clients select indices for various asset classes making up their fund policy benchmark composition. AIMCo aggregates published returns for these indices into a policy benchmark composite return for each endowment fund.

The endowment funds are invested in diversified portfolios consisting of units of many asset pools managed by AIMCo either through internal or external portfolio managers. The total returns of the endowment funds are calculated as weighted averages of returns of pools in which the endowment funds are invested. The weights used in calculations are actual weights of each pool in each endowment fund portfolio.

DESCRIPTION OF RESULTS

Five-year market value rate of return of the endowment funds and their benchmark plus 1.0 per cent as of March 31, 2011:

ENDOWMENT FUND	FIVE-YEAR ANNUALIZED MARKET VALUE RATE OF RETURN (%)*	FIVE-YEAR ANNUALIZED MARKET VALUE RATE OF RETURN OF THE POLICY BENCHMARK PLUS 1.0%*	RESULTS
Alberta Heritage Savings Trust Fund	3.5	4.8	-1.3
Alberta Heritage Foundation for Medical Research Endowment Fund	2.9	4.5	-1.6
Alberta Heritage Scholarship Fund	3.5	5.0	-1.5
Alberta Heritage Science and Engineering Research Endowment Fund	2.9	3.5	-1.6

Five-year market value rate of return for the pension funds and their benchmark plus 1.0 per cent as of March 31, 2011:

PENSION FUND	FIVE-YEAR ANNUALIZED MARKET VALUE RATE OF RETURN (%)*	FIVE-YEAR ANNUALIZED MARKET VALUE RATE OF RETURN OF THE POLICY BENCHMARK PLUS 1.0%*	RESULTS
Local Authorities	3.61	5.60	-1.98
Management Employees	3.72	5.31	-1.58
Provincial Judges and Masters in Chambers	3.45	5.02	-1.57
Provincial Judges and Masters in Chambers Unregistered	2.87	4.52	-1.65
Public Service	2.86	4.36	-1.50
Supplementary Retirement Plan for Public Service Managers (closed)	3.12	4.90	-1.78
Special Forces	3.28	4.78	-1.50
Universities Academic	2.92	4.34	-1.42

SOURCE

Fund returns and their benchmarks are calculated within the Sylvan modules of SS&C by AIMCo's Performance Measurement Group.

Benchmark returns are calculated using policy benchmark weights provided by clients' statement of investment policy and goals.

Return series of indices used to calculate the policy benchmarks are sourced from AIMCo's benchmark providers.

CPI is obtained from either Bank of Canada's web site or from Bloomberg.

NOTES

This measure is used to determine the impact of AIMCo active fund management on performance and is measured as the difference between actual returns and policy benchmark returns for each fund.

5.c Client satisfaction with the services provided by the Risk Management and Insurance Division (survey issued every three years)

METHODOLOGY

The Alberta Risk Management and Insurance (RMI) branch operates under the authority of the *Financial Administration Act*. The Alberta RMI Fund facilitates the provision of risk management services to ministries by assuming general and automobile liability and the risk of property and other losses.

The survey will be sent to all participant representatives and others in regular contact with RMI.

SOURCE

The survey will not be conducted by RMI but will be carried out by a third party to ensure anonymous responses are received and results are professionally analyzed.

7.a ATB Financial return on average assets.

METHODOLOGY

For the fiscal year ended March 31, 2011: Net Income before payment in lieu of tax and recoveries (losses) on asset- backed commercial paper/Average total assets.

SOURCE

Net income before payment in lieu of tax and recoveries (losses) on asset-backed commercial paper/ Average total assets – per annual financial statements.

Average assets per internal reporting systems, which calculate average assets on a daily basis.

7.b Cost to Alberta local authorities of borrowing from the Alberta Capital Finance Authority (ACFA) compared to other municipality/aggregating agencies for a comparable loan

METHODOLOGY

The ACFA compares Alberta local authorities' indicative loan rates to the cost of borrowing by Ontario municipalities from the Ontario Strategic Infrastructure Financing Authority (OSIFA). ACFA's indicative loan rates are estimates of what the Authority would achieve under similar terms and circumstances to the actual rate used by OSIFA.

SOURCE

OSIFA municipal indicative lending rates as published on Infrastructure Ontario's website.

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