Freedom To Create. Spirit To Achieve.

Finance and Enterprise

Annual Report

2009-2010

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 released June 24, 2010 contains the Minister of Finance and Enterprise's accountability statement, 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 business 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.**

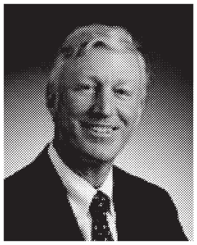
Minister's Accountability Statement

The Ministry's annual report for the year ended March 31, 2010, 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 September 10, 2010 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

"Original signed by"

Ted Morton
Minister of Finance and Enterprise
September 10, 2010

Message from the Minister



The 2009-10 year continued to present economic challenges to Alberta and to governments around the world. As a resource-based economy, Alberta continued to feel the effects of volatile commodity prices.

The Alberta government continued to follow its four point plan to ready the province for economic recovery. This, combined with the actions taken in the last 15 years, which included paying off accumulated debt and putting aside savings in the Sustainability Fund and other endowment funds, allowed for a measured approach. Rather than making deep and damaging cuts, government drew on the Sustainability Fund to protect priority public programs. At the same time, government carefully managed spending and invested significantly in infrastructure to support jobs.

As the year progressed and signs of economic recovery began to appear, the province's revenue outlook began to improve. In the end, the 2009-10 deficit was $1 billion on the Fiscal Plan basis, considerably smaller than the budget forecast of $4.7 billion.

Over the past year, government developed and coordinated Budget 2010. This budget protected core programs such as health, education, and supports for seniors and vulnerable Albertans, while maintaining the lowest tax regime in Canada.

Each government ministry took action in 2009 by looking internally at ways to more efficiently provide services to Albertans. The collective savings resulting from those efforts helped lower the deficit and improve the government's fiscal position.

Government also moved ahead with a challenge to the federal move to create a national securities regulator. Reference questions were filed with the Alberta Court of Appeal, and Alberta also intervened in a similar challenge by the Québec government to the Québec Court of Appeal.

The Ministry developed and drafted several pieces of legislation which included helping to ensure Alberta remains competitive on the global economic stage and further strengthening existing securities laws to bring Alberta in line with international reporting practices.

The Ministry saved taxpayers hundreds of millions of dollars over the long term, by borrowing almost $1.2 billion to repay money owed to the post-1992 Teachers' Pension Plan which had been borrowed to pay pension benefits related to pre-1992 service. Had the government not opted to borrow the money, it would have continued to pay interest for over 30 years at a prescribed interest rate set currently at 6.75 per cent rather than paying about 4 per cent - the rate at which funds were borrowed

Tax and Revenue Administration's audits recovered $95 million in commodity and corporate tax programs in 2009-10. Audit continues to work cooperatively within TRA and with tax administrations across Canada to ensure compliance with Alberta's tax laws.

Ministry of Finance and Enterprise employees have provided quality service to Albertans. I am proud to lead such a dedicated team. Looking ahead, we will continue our work to help build a strong and competitive Alberta.

"Original signed by"

Honourable Ted Morton
Minister of Finance and Enterprise

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 Investment Services 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 business plans, 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 the Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. 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 – Actual results are presented clearly and consistently with the stated methodology and presented on the same basis as targets and prior years' information.
- Completeness – Performance measures and targets match those included in Budget 2009. Actual results are presented for all measures.

As Deputy Minister, in addition to program responsibilities, I establish and maintain 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, Treasury Board, the Minister of Finance and Enterprise any 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
September 10, 2010

Results Analysis

- Ministry Overview
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    - Operational Overview
    - Summary of Key Activities in the Past Year
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- Performance Measures Summary Table
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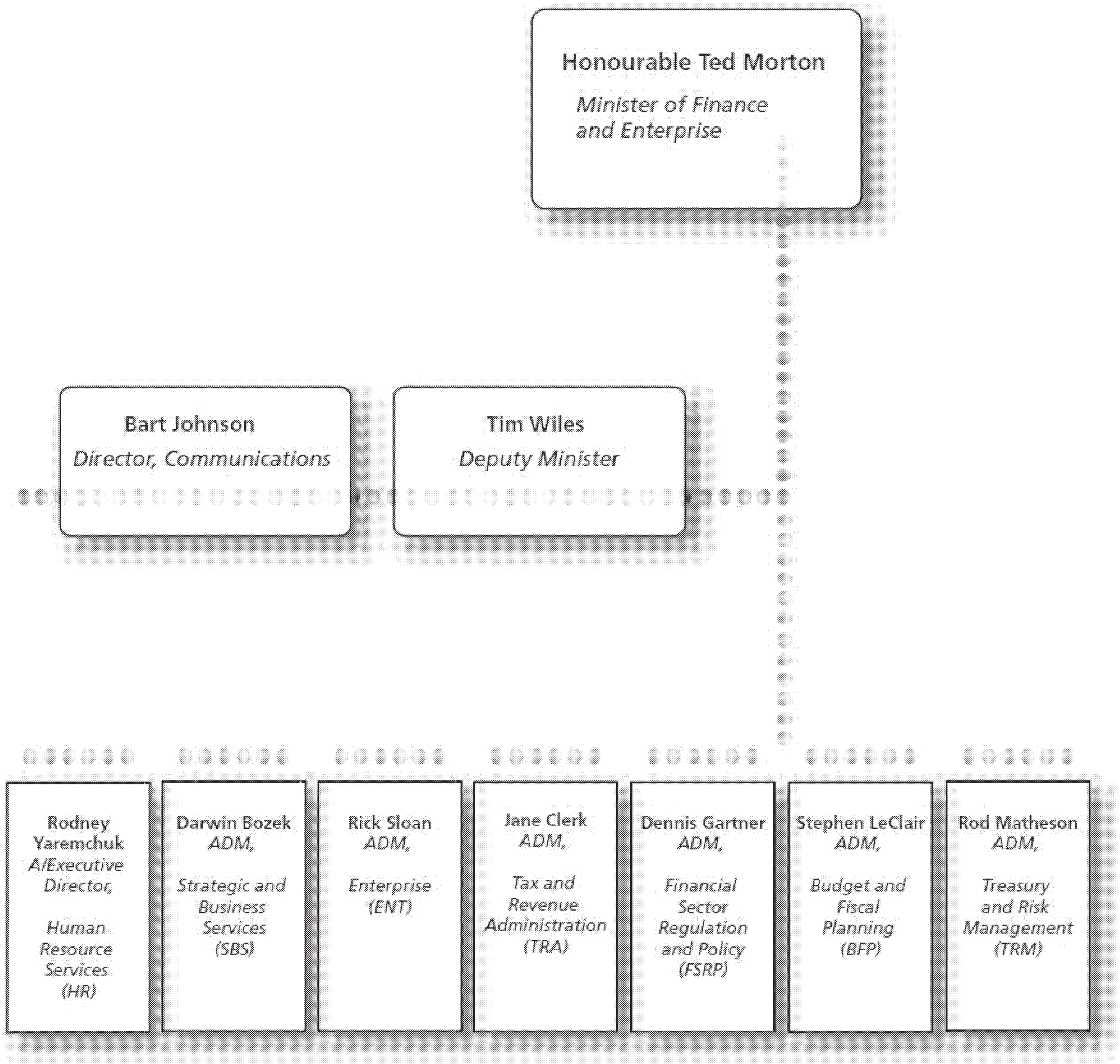
Organization Chart



Ministry Vision, Mission, Core Businesses and Goals

Vision

Financial and Economic Leadership that Strengthens Alberta

Mission

Provide expert economic, financial, and fiscal 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 – Effective regulation of financial products and services
	Goal 7 – Sustainable public sector pension plans in Alberta
	Goal 8 – Accessible financial services for Albertans and local authorities

Operational Overview

FINANCE AND ENTERPRISE			www.finance.alberta.ca
Terrace Building	Haultain Building	Commerce Place	
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 issues. Its major output is the province's annual budget. In 2009-10, BFP had four branches: Budget Planning and Integration, Economics, Demography and Public Finance, Tax Policy and Strategic Resource Allocation. During the course of 2009-10, the Strategic Resource Allocation branch was disbanded and its core functions were transferred to the Budget Planning and Integration (BPI) and Economics, Demography and Public Finance (EDPF) branches.

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, Tobacco Tax and *Unclaimed Personal Property and Vested Property Acts* on behalf of the Minister of Finance and Enterprise. TRA also administers the Alberta Scientific Research and Experimental Development tax credit 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 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 and 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. It 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 and communities with information and support to achieve regional economic viability and enhanced prosperity;
- supports the Alberta Economic Development Authority, Northern Alberta Development Council, and Regional Economic Development Alliances.

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)

Strategic and Business Services is responsible for supporting the ministry's business and continuity planning (leadership and support for strategic and business plans, annual report, and coordinating the ministry's response to pandemics and continuity/disaster recovery), financial services (full range of financial advisory, planning, accounting and reporting services to the ministry and the Pension Plan Boards), corporate technology services, administrative and information services (including facilities management, information and records management and administration of 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 caliber 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 provides advice and support to the Minister and the Ministry on 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 2010: Striking the Right Balance*, which protects programs and competitiveness with fiscal strength during turbulent times. Despite fiscal challenges, this budget saw an increase in funding for health, basic education and supports for seniors and vulnerable Albertans, while maintaining the lowest tax regime in Canada. This is thanks, in part, to cost savings found across government that were reinvested in these key areas.

- Maintained a strong position for recovery with nearly $15 billion in emergency savings to protect and provide the things that matter most to Albertans, including health care, education, the environment and support for those who need it.

- Challenged the federal move to create a national 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 reference filed by Québec with the Québec Court of Appeal and in the federal government's recent reference to the Supreme Court of Canada.

- Drafted several pieces of legislation, including the *Alberta Competitiveness Act, 2010*, to help promote a more competitive provincial economy. Other legislation included the *Tobacco Tax Amendment Act, 2009*, the *Tourism Levy Amendment Act, 2009*, and the *Alberta Corporate Tax Amendment Act, 2009*. Existing securities law was further strengthened, by introducing the *Securities Amendment Act, 2010*, to bring Alberta in line with international reporting practices.

- Worked with the federal, provincial and territorial governments to review the retirement income and savings system. Significant analysis was completed in preparation for a meeting of all finance ministers in June 2010.

- Identified government-wide actions to reduce the costs of doing business in Alberta with the implementation of regulatory reform activities in several sectors such as energy, agriculture and transportation.

- Developed the Bitumen Royalty in Kind program along with Alberta Energy, including the Request for Proposals for processing up to 75,000 barrels per day of the Crown's bitumen royalty volumes. After participating in an evaluation process, the government decided to proceed with negotiations on a commercial agreement with Northwest Upgrading Inc. This negotiation process, which is being led by Alberta Energy, is expected to be completed in 2010.

- Launched ProductivityAlberta.ca, a web portal to connect Alberta industry to a set of tools, resources, and services that will assist them in improving their productivity and competitiveness. It includes the Productivity Assessment Tool, a made-in-Alberta assessment system to help businesses find their productivity strengths and identify opportunities for improvement.

- The Ministry saved taxpayers hundreds of millions of dollars over the long term, by borrowing almost $1.2 billion to repay money owed to the post-1992 Teachers' Pension Plan which had been borrowed to pay pension benefits related to pre-1992 service. Had the government not opted to borrow the money, it would have continued to pay interest for over 30 years at a prescribed interest rate set currently at 6.75 per cent rather than paying about 4 per cent - the rate at which funds were borrowed.

- 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.

- Collected a total of $6.6 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 275,000 and more than 29,000 benefit claims were processed in the same period.

- Through audits of commodity and corporate tax programs the Ministry recovered $95 million in 2009-10. Audit continues to work cooperatively with tax administrations across Canada to ensure compliance with Alberta's tax laws.

- Implemented the Scientific Research and Experimental Development tax credit program and the *Unclaimed Personal Property and Vested Property Act*.

Ministry Financial Highlights

	2009-10		2008-09
Revenue	**Budget**	**Actual**	**Actual**
(millions of dollars)	**15,183**	**18,355**	**13,183**

Revenue for the Ministry was $5,172 million, or 39 per cent, higher than 2008-09.
(Actual – Actual)

- Personal income taxes were lower than last year by $831 million due to lower personal income and lower than expected assessments for the base 2008 tax year.
- Corporate income tax revenue was $502 million higher than 2008-09, primarily due to unexpectedly strong cash receipts from the oil and gas sector.
- Other taxes were lower by $8 million in 2009-10. Tobacco tax increased by $36 million due to higher tax rates. Fuel tax decreased by $17 million due to lower consumption associated with weaker economic and population growth. Insurance taxes were $13 million lower as a result of lower premiums written and the tourism levy decreased by $14 million due to fewer tourists.
- Transfers from the Government of Canada increased by $17 million as a result of the funding received from the Federal Community Development Trust.
- Increased optimism and recovery of the global financial markets contributed to an increase of $5,374 million in investment income primarily within the endowment funds and the Department.
- Net income from commercial operations was $122 million higher mainly attributed to a $121 million increase of ATB Financial net income. In the prior year ATB Financial reported a $224 million provision for asset backed commercial paper not required this year. In the current year there was an increase of $38 million in operating expenses, a $16 million increase for credit provisions, the $38 million payment in lieu of taxes to Alberta Finance and Enterprise, and $11 million in reduced operating revenue. Overall a net change of $122 million from the prior year.
- For premiums, fees and licenses, there was a $37 million increase due to a $38 million payment in lieu of taxes from ATB Financial.
- Internal government transfers decreased $56 million as lottery revenues were lower than the prior year.

Revenue for the Ministry was $3,172 million, or 21 per cent, over budget.
(Budget – Actual)

- Personal income tax revenue was $682 million lower than budget due to lower personal income and lower than expected assessments for the base 2008 tax year.
- Corporate income tax (CIT) revenue was $2,307 million higher than budget. A high portion of CIT revenue is collected in the last two months of the fiscal year. Over the last seven years collections in February to March have averaged about 40 per cent of total fiscal year collection. Given the recession experienced in 2009 and the large drop in forecasted corporate profits, net CIT collections which were strong during the first part of the year were expected to weaken considerably over the last three months of 2009-10. Instead they came in at record high levels. The unexpected strength in CIT was attributable to the oil and gas sector, where net CIT revenue increased by 57 per cent from the previous year to reach a level of nearly $2.0 billion. Net CIT from all other industries declined by 12.4 per cent.
- Other taxes were $109 million lower than budget as sales were less than anticipated, and a decrease in consumption was realized with a weakening economy.
- Investment returns were $1,654 million higher than budget. The stabilization and recovery of global markets contributed to the higher investment returns.

- Net income from commercial operations was $19 million under budget as ATB Financial paid $38 million to the Ministry in lieu of taxes.
- Premiums, fees and licences were $39 million over budget. This is primarily attributed to ATB Financial's $38 million payment in lieu of taxes.
- Lower than expected lottery revenues resulted in internal government transfers of $1 million less than budget.
- Other revenue was $15 million under budget. Refunds of expenditures and other miscellaneous revenue was $13 million lower than budget, service revenue was lower than budgeted by $3 million, and pension administration revenue $2 million less than budget. These reduced revenues were partially offset by increases in securities settlements and insurance services.

	2009-10		2008-09
Expenses	**Budget**	**Actual**	**Actual**
(millions of dollars)	**2,389**	**1,730**	**3,170**

Ministry expenses were $1,440 million, or 45 per cent, lower than in 2008-09.
(Actual – Actual)

- Investment, treasury and risk management expenses were $15 million higher than prior year due to an increase in investment management costs for the endowment funds and AIMCo fees.
- Financial Sector and Pensions expenses were $93 million lower than last year caused by a decrease in Alberta Capital Finance Authority borrowing costs of $100 million over the prior year, partially offset by a $3 million increase in pension administration costs and a $4 million increase in regulatory costs.
- The Teachers' Pension liability funding was $99 million higher than the prior year since commencing September 1, 2009 payments were made based on pension benefits rather than set contributions from the prior year.
- Valuation adjustments are $1,465 million lower as the pension obligation balance was lower than last year due to repayment towards the Teachers' Pension Plan liability.
- Debt servicing costs were $4 million higher than the prior year due to the issuance of bonds to repay the Teachers' Pension Plan unfunded liability and the issuance of Alberta Capital Bonds.

Expenses for the Ministry were $659 million, or 28 per cent, under budget.
(Budget – Actual)

- Investment, treasury and risk management expenses were $42 million lower than budget: $24 million lower than budget due to lower investment management fees than anticipated, $12 million less in transfers from endowment funds than anticipated and $6 million due to reduced expense in the Risk Management Fund.
- Financial Sector and Pensions expenses were $165 million lower compared to budget. Of this, $152 million is due to a decrease in Alberta Capital Finance Authority's interest expense due to a change from fixed to floating interest rate debt. The Alberta Securities Commission had lower operating expenses of $9 million due to staff vacancies.
- The Teachers' Pension liability funding was $15 million lower than budgeted due to lower than expected retirements and benefits payable as a result of the slower economic conditions.
- Valuation adjustments are $444 million under budget as the recovery of global financial markets resulted in pension plan deficits not increasing to the extent expected, thus the change in pension plans obligations was not as high as budgeted.
- Debt servicing costs were $5 million higher than budget due to issuance of bonds to repay the Teachers' Pension Plan pre-92 unfunded liability and the issuance of Alberta Capital Bonds.

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as "Reviewed by Auditor General" included in the *Ministry of Finance and Enterprise's 2009-10 Annual Report*. These performance measures are prepared based on the following criteria:

- Reliability – Information agrees with the underlying data and with sources used to prepare it.
- Understandability and Comparability – Actual results are presented clearly and consistently with the stated methodology and presented on the same basis as targets and prior years' information.
- Completeness – performance measures and targets match those included in Budget 2009. Actual results are presented for all measures.

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 these 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 2009-10 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

Edmonton, Alberta
September 3, 2010

Performance Measures Summary Table

Core Businesses/Goals/Performance Measure(s)

Note: for Methodology, Source and Notes see Appendix

			Prior Years' Results					Current Actual
			2005-06	**2006-07**	**2007-08**	**2008-09**	**Target**	**2009-10**
CORE BUSINESS: FISCAL PLANNING AND ECONOMIC ANALYSIS								
1.	**Strong and Sustainable Government Finances**							
1.a*	Alberta's credit rating (blended credit rating domestic debt)		AAA	AAA	AAA	AAA	AAA	AAA
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	N/A not comparable	N/A not comparable	9.6%	Equal to or less than CPI+ Pop.	4.4%
		Population plus CPI				5.2%		2.1%
2.	**Sound Tax and Economic Policy**							
2.a*	Provincial and municipal tax load as a percentage of the Canadian average (interprovincial rank)- (new measure 2009-12 BP)		Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
2.b	Provincial tax load on businesses		Second-lowest in Canada	Lowest in Canada	Fourth Lowest in Canada	Second-lowest in Canada	Lowest in Canada	Lowest in Canada
CORE BUSINESS: ENTERPRISE								
3.	**Alberta has a competitive and productive economy**							
3.a	Real Domestic Product of manufacturing and business and commercial services	GDP	$31.1 billion	$33.4 billion	$34.3 billion	$34.6 billion	$36.6 billion	$31.3 billion
		% change	7.5%	7.4%	3.0%	0.8%	4.0%	-9.5%
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)[1]	Capital Expenditures	$13.5 billion(r)	$15.8 billion(r)	$17.1 billion(r)	$19.2 billion(r)	$18.6 billion(r)	$15.2 billion(r)
		% Change	16.1%(r)	17.6%(r)	7.7%(r)	12.2%(r)	+2.0%(r)	-20.7%(r)

[1] (r) These results have been revised. Please refer to the Appendix for further details.

		Prior Years' Results					Current Actual
		2005-06	2006-07	2007-08	2008-09	Target	2009-10
CORE BUSINESS: TAX AND REVENUE MANAGEMENT							
4.	**Revenue Programs are Administered Fairly, Efficiently and Effectively**						
4.a*	Ratio of amounts added to net revenue to costs of administration (as a measure of efficiency)	12:1	15:1	13:1	25:1	12:1	12:1
4.b	Percentage of revenue obtained through self-compliance (as a measure of effectiveness)	93.7%	92.8%	94.2%	88.1%	92%	95%
CORE BUSINESS: INVESTMENT, TREASURY AND RISK MANAGEMENT							
5.	**Sound investment, treasury and risk management**						
5.a*	The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5 per cent.	N/A not comparable			2.9% (3.5% below target)	6.3% (CPI + 4.5%)	4.7% (1.6% below target)
5.b	Value-added through active investment management, for the endowment and pension funds, annualized over a five year period[1]	Over target	2 pension under rest over target	Over target	Under target	Bench-mark plus 1% target	Under target
5.c	Client satisfaction with the services provided by the Risk Management and Insurance Division (survey issued every two years)	N/A	86%	N/A	86%	N/A	N/A

[1]Pension funds not included in this measure in 2005-06 and 2007-08

		2005-06	2006-07	2007-08	2008-09	Target	2009-10
CORE BUSINESS: FINANCIAL SECTOR AND PENSIONS							
6.	**Effective regulation of financial products and services**						
6.a*	Percentage of private sector pension plans that meet minimum funding standards	99%	98%	99%	99%	100%	99.9%
6.b	Inter-provincial/territorial securities regulatory system (new measure 2009-12 BP)	Phase One of the passport system implement-ted	Amend-ments passed to enable Phase Two of the Passport system	Phase Two of the Passport System implement-ed for issuers	Full Implement-ation of Phase Two of the Passport System deferred to fall 2009/10	Continu-ation of develop-ment and enact-ment of highly harmon-ized secure-ties laws	Memorand-um of Understand-ing committed participat-ing provincial/ territorial govern-ents to implement and maintain

		Prior Years' Results					Current Actual
		2005-06	**2006-07**	**2007-08**	**2008-09**	**Target**	**2009-10**
							highly harmonized securities laws.
7.	**Sustainable public sector pension plans in Alberta**						
7.a	Improved pension plan governance	Governance review ongoing throughout the year			Phase II of the Govern-ance review is deferred to (2009/ 10)	Governa-nce review complete	Operating protocols in place. Develop-ment of Mandate and Roles documents ongoing.
8.	**Accessible financial services for Albertans and local authorities**						
8.a	ATB Financial return on average assets	1.20%	1.44%	0.14%	0.03%	0.53%	0.62%
8.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 (in both cases compared)	Met (in both cases compared)	Met (in both cases com-pared)	Lowest of compara-ble cases	Met

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

1. Enduring measures that best represent the goal and mandated initiatives,
2. Measures that have well established methodology and data reporting,
3. Measures that have outcomes over which the government had a greater degree of influence, and

Note: For additional detail please refer to the appendix

Discussion and Analysis of Results

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

Strong and Sustainable Government Finances

A major component of Alberta's fiscal planning and budgeting is the legislated fiscal framework, enshrined mainly in the *Fiscal Responsibility Act* (FRA). 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 the operation of the Sustainability Fund.

Alberta Finance and Enterprise worked with Treasury Board, Energy and other ministries on a number of initiatives. Assistance was provided in developing the Capital Plan, including advice on alternative financing proposals such as Public-Private Partnerships. The fiscal planning perspective was articulated on various changes being proposed to public sector accounting standards. For the first year, the Government of Alberta's annual report included the consolidation of the financial results of the SUCH sector (schools, universities, colleges and health board) and Alberta Innovates on a line-by-line basis. The ministry also provided economic and fiscal advice to, for example, A Framework to Improve Alberta's Conventional Natural Gas & Oil Competitiveness, Land Use Framework, Aging Population Policy Framework, and climate change and carbon capture and storage policy issues.

The volatility of Alberta's revenue base presents a unique challenge in maintaining the sustainability and stability of government finances. This continued to be the case in 2009-10. Revenue was $4 billion higher than originally forecast in Budget 2009 and there were large changes in a number of major revenue sources. Land sales, oil and oil sands royalties, investment income, and corporate income taxes were significantly higher than originally forecast, while natural gas royalties were significantly lower.

Operating expense increased 4.4 per cent in 2009-10 compared to population plus inflation growth of 2.1 per cent. However, growth in total expense was essentially zero as the $1.3 billion increase in operating expense was almost entirely offset by a $1.1 billion decrease in capital grants and a $0.2 billion decrease due to the expiration of the natural gas rebate program. Emergency and disaster spending was essentially flat.

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 promotes strong economic growth. Overall, Alberta has the lowest taxes of all provinces with a 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.

Alberta's low tax regime leaves more money in the hands of Albertans and Alberta businesses to spend and invest. Alberta continues to have the lowest relative provincial and municipal tax load (performance measure 2a).

In 2009, the province cut education property tax rates by about 16 per cent, marking the 16th consecutive year that rates have either been frozen or fallen. The province also increased the small business threshold to $500,000 on April 1, 2009. Tobacco taxes were also raised by eight per cent to further support the Alberta Tobacco Reduction Strategy.

GOAL 3 Linked to Core Business 2 - Enterprise

Alberta has a competitive and productive economy

In 2009-10, the Enterprise division successfully implemented strategies to support Alberta Finance and Enterprise's core business. This was accomplished through various activities including the continued development of value-added goods and service industries; collaboration with Regional Economic Development Alliances (REDAs) and the Northern Alberta Development Council (NADC) to promote regional and northern economic development opportunities; and work with multiple stakeholders to encourage productivity and competitiveness both at the firm level and in government policy development. Economic information products were developed to help our government and Alberta companies make sound business decisions based on emerging economic information.

The Ministry of Finance and Enterprise promotes innovation and value-added economic development to create more jobs, diversify its economy and strengthen its fiscal position. In 2009, the Ministry partnered with Alberta Energy to develop the Bitumen Royalty in Kind program, including the request for proposals program for processing up to 75,000 barrels per day of the Crown's bitumen royalty volumes. The Ministry also participated in the proposal's evaluation process which led to the government decision to proceed with negotiations on a commercial agreement with a private company.

In order to increase Alberta's productivity, the Ministry launched ProductivityAlberta.ca, a web portal to connect Alberta industry to a set of tools, resources, and services that will assist them in improving their productivity and competitiveness. The web portal includes the Productivity Assessment Tool, a made-in-Alberta assessment system to help businesses find their productivity strengths and identify opportunities for improvement. In addition, the Ministry worked with the Alberta Economic Development Authority, industry, businesses, communities, and the Regional Economic Development Alliances and Northern Alberta Development Council to make Alberta globally competitive in priority sectors by competency and productivity.

In terms of promoting regional development, the Ministry developed a Renewable Energy Toolkit for Economic Development, which provides communities with a tool to evaluate the potential costs and benefits of renewable energy projects. The Ministry also participated in interdepartmental initiatives such as the ongoing discussion on Land-use Framework's (LUF) regional plans for Lower Athabasca and South Saskatchewan, and the LUF's cumulative effects management strategy.

In 2009, the real gross domestic product (GDP) for manufacturing and business and commercial services was $31.3 billion. The measure did not meet the established target of 4 per cent as it declined by 9.5 per cent from the 2008 result, because of the global economic crisis. The manufacturing sector declined by 16.5 per cent due to the global recession, U.S. housing crisis, the slowdown in investment in Alberta's oil sands and in residential housing, and the strong value of the Canadian dollar.

The hardest hit manufacturing sectors were machinery, fabricated metals and non-metallic mineral products (oil sands slowdown and for the latter sector also the Alberta residential housing slowdown), wood products, such as lumber and oriented strand board (OSB) (U.S. housing crisis), and plastics and chemicals (global recession). GDP for business and commercial services fell by 3.5 per cent in Alberta, as the Alberta economy was also in recession in 2009 (hardest hit sector was professional, scientific and technical services which includes engineering services – hard hit by the large decline in investment in Alberta, e.g. oil sands investment).

For a comparative frame of reference, Alberta's overall GDP declined by an estimated 5.1 per cent in 2009.

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 $6.6 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 275,000 and more than 29,000 benefit claims were processed in the same period;
- *The Tobacco Tax Amendment Act, 2009*, the *Tourism Levy Amendment Act, 2009*, and the *Alberta Corporate Tax Amendment Act, 2009* were passed in the 2009 spring session. The *Alberta Corporate Tax Amendment Act, 2010* was passed in 2010 spring session;
- Tax and Revenue Administration's audits recovered $95 million in commodity and corporate tax programs in 2009-10. Audit continues to work cooperatively with tax administrations across Canada to ensure compliance with Alberta's tax laws; and
- TRA implemented the Scientific Research and Experimental Development tax credit program and the *Unclaimed Personal Property and Vested Property Act.*

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). It is expected that the asset allocation decision will be responsible for most of the funds' returns. AIMCo implements these 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 will add incremental returns through its tactical asset allocation and security selection decisions.

Due to direct borrowing for capital purposes and to repay an outstanding loan to the Teacher's Pension Plan, the un-matured debt of the Province increased by $2.76 billion at March 31, 2010. Consequently, the associated debt servicing costs increased by $6 million to $214 million in 2009-10.

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

- Maintained a strong position for recovery with nearly $15 billion in emergency savings to protect and provide the things that matter most to Albertans, including health care, education, the environment, and support for those who need it;
- The Ministry saved taxpayers hundreds of millions of dollars over the long term, by borrowing almost $1.2 billion to repay money owed to the post-1992 Teacher's Pension Plan which had been borrowed to pay pension benefits related to pre-1992 service. Had the government not opted to borrow the money, it would have continued to pay interest for over 30 years at a prescribed interest rate set currently at 6.75 per cent rather than paying about 4 per cent - the rate at which funds were borrowed;
- 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;
- Transfers of $48.4 million to Advanced Education for the Access to the Future Fund; and
- A $21.9 million transfer from the Alberta Cancer Legacy Prevention Fund to Health.

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

Effective regulation of financial products and services

Albertans need to know the financial services and products they receive are secure.

Alberta Finance and Enterprise currently monitors 784 private sector pension plans. Of these, 694 are active, 10 are in the process of being registered, five are suspended, and 75 are in the process of winding up. These plans have 241,775 active members. Total contributions for the year were approximately $2.3 billion and the total market value of assets was approximately $25.6 billion for the year ended March 31, 2010.

During 2009-10, significant analysis was completed, in collaboration with all Canadian governments, regarding pension and retirement income system reform. Alberta public consultations were also opened to elicit input on improvements to the Canadian retirement savings system.

In addition, Alberta initiated a reference to the Alberta Court of Appeal regarding the constitutionality of the federal government's proposal for a single national securities regulator, and joined Québec as an intervener 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.

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

Sustainable public sector pension plans in Alberta

Finance and Enterprise provides policy support to government as trustee and sponsor of several public sector pension plans.

In accordance with the terms of the November 2007 agreement between Alberta teachers and the government, on September 1, 2009, the Alberta government assumed full responsibility for funding the pre-1992 portion of the Teachers' Pension Plan. In 2009, Finance and Enterprise implemented the necessary legislative changes to enable this transition and will be responsible for managing the funding.

The department worked closely with pension service agencies and pension boards to jointly develop Mandate and Roles Documents for each agency that meets the requirements of the *Alberta Public Agencies Governance Act*. This Act and the development of such documents promotes the continuous improvement of good governance.

Goal 8 Linked to Core Business 5 - Financial sector and pensions

Accessible financial services for Albertans and local authorities

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 685,000 Albertans through 165 branches and 131 agencies in Alberta. About 60 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 $127.5 million for 2009-10 from the previous year's result of $6.4 million, which reflected $224.8 million in provisions for asset-backed commercial paper (ABCP). Included within the net income for this year is the effect of ATB recording its first payment in lieu of tax of $38.1 million. Excluding last year's ABCP provision and this year's payment in lieu of tax, ATB's adjusted net income slipped $66.2 million (28.6 per cent) from the previous year primarily because of a decrease in other income, an increase in non-interest expenses and an increase in provisions for credit losses. Total assets were $25.4 billion (down 4.0 per cent from the previous year); and total equity increased to over $1.80 billion.

ATB's return on average assets before ABCP and the payment in lieu of tax was 0.62 per cent for the year, above the targeted return, as a result of the net interest spread of 2.68 per cent on average earning assets being higher than the year's target range of 2.30 per cent to 2.40 per cent. During the year, ATB exceeded its targeted levels for net interest spread through increases in yields from corporate loan products.

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 2009.

Ministry Expense by Function

EXPENSE BY FUNCTION
(millions of dollars)

	2009-10 Budget	2009-10 Actual	2008-09 Actual
Health	114	104	97
Education	91	38	82
Agriculture, Resource Management and Economic Development	50	52	48
Regional Planning and Development	310	154	256
Protection of Persons and Property	42	33	31
General Government	801	807	653
Debt Servicing	181	186	182
Pension Provisions	801	356	1,821
Total Expense by Function	**$ 2,390**	**$ 1,730**	**$3,170**

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

- Ministry of Finance and Enterprise
- Department of Finance and Enterprise
- Regulated Funds
- Provincial Agencies and Non-commercial Crown-controlled Corporations
- Commercial Enterprises
- Commercial Crown-controlled Corporation

MINISTRY OF FINANCE AND ENTERPRISE

Consolidated Financial Statements

Year ended March 31, 2010

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statements of financial position of the Ministry of Finance and Enterprise as at March 31, 2010 and 2009 and the consolidated statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Ministry of Finance and Enterprise's 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 the Ministry as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Consolidated Statements of Operations

Year ended March 31

($ millions)

	2010		2009
	Budget (Schedule 2)	Actual	Actual
Revenues (Schedules 1 and 2)			
Income taxes	$ 11,006	$ 12,631	$ 12,960
Other taxes	2,014	1,905	1,913
Transfers from Government of Canada	39	37	20
Net investment income (loss) (Note 11)	1,697	3,351	(2,023)
Net income from commercial operations (Note 11)	156	137	15
Premiums, fees and licences	60	99	62
Internal government transfers	1	-	56
Other	210	195	180
	15,183	18,355	13,183
Expenses (Schedules 2 and 3)			
Fiscal planning and economic analysis	5	4	4
Ministry support services	10	11	10
Enterprise	23	21	24
Tax and revenue management	53	57	55
Investment, treasury and risk management (Note 12)	490	448	433
Financial sector and pensions	470	305	398
Teachers' pre-1992 pension liability funding	356	341	242
Valuation adjustments (Schedule 4)	801	357	1,822
Debt servicing costs			
General government	161	166	157
School boards	20	20	25
	2,389	1,730	3,170
Net operating results	$ 12,794	$ 16,625	$ 10,013

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

Consolidated Statements of Financial Position

As At March 31

	($ millions) 2010	2009
Assets		
Cash and temporary investments (Schedule 5)	$ 4,775	$ 7,202
Accrued interest and accounts receivable (Schedule 6)	1,778	2,170
Portfolio investments (Schedule 7)	32,003	31,426
Equity in commercial enterprises (Schedule 8)	1,997	1,948
Loans and advances to government entities (Schedule 9)	1,379	1,311
Other loans and advances (Schedule 10)	8,273	6,959
Tangible capital assets (Schedule 11)	47	21
	$ 50,252	$ 51,037
Liabilities		
Bank overdraft	$ 875	$ 1,258
Accrued interest and accounts payable (Schedule 12)	1,477	1,630
Unmatured debt (Schedule 13)	4,706	1,990
Debt of Alberta Capital Finance Authority (Schedule 14)	8,100	6,812
Pension obligations (Schedule 15)	8,952	9,781
Other accrued liabilities (Schedule 16)	169	212
	24,279	21,683
Net Assets		
Net assets at beginning of year	29,354	32,243
Adjustment to opening net assets	-	(159)
Net operating results	16,625	10,013
Net financing provided for general revenues (Note 3 (b))	(19,929)	(12,829)
Change in accumulated unrealized gains (Schedule 8)	(77)	86
Net assets at end of year	25,973	29,354
	$ 50,252	$ 51,037

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

Consolidated Statements of Cash Flows

Year ended March 31

	($ millions) 2010	2009
Operating activities		
Net operating results	$ 16,625	$ 10,013
Non-cash items included in net operating results	121	1,974
	16,746	11,987
Decrease (increase) in receivables	403	(463)
(Decrease) increase in payables	(214)	115
Other	(79)	112
Cash provided by operating activities	16,856	11,751
Capital activities		
Purchase of tangible capital assets	(40)	(10)
Cash applied to capital activities	(40)	(10)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	25,808	18,621
Portfolio investments purchased	(26,133)	(14,513)
Repayments of loans and advances	2,445	2,451
Loans and advances made	(3,829)	(3,618)
Cash (applied to) provided by investing activities	(1,709)	2,941
Financing activities		
Debt issues	14,311	10,700
Debt retirement	(10,303)	(10,091)
Payment of Teachers' pre-1992 pension plan obligation	(1,186)	-
Grants for school construction debenture principal repayment	(44)	(52)
Net financing provided for general revenues	(19,929)	(12,829)
Cash applied to financing activities	(17,151)	(12,272)
(Decrease) Increase in cash	(2,044)	2,410
Cash and temporary investments, net of bank overdraft, at beginning of year	5,944	3,534
Cash and temporary investments, net of bank overdraft, at end of year	$ 3,900	$ 5,944

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

Notes to the Consolidated Financial Statements

March 31

(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

Note 1 (continued)

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)** Investment, treasury and risk management,
- **c)** Tax and revenue management,
- **d)** Regulation of pensions, insurance and financial institutions, and
- **e)** Enterprise – industry, regional, and northern economic development.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statement presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the Ministry. These financial statements are prepared in accordance with the following accounting policies.

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 generally accepted accounting principles applicable to these entities.

Note 3 (continued)

The reporting period of some of the Provincial agencies is other than March 31. Transactions of these agencies that have occurred during the period to March 31, 2010 and that significantly affect the consolidation have been recorded.

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 Funds 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 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.

Note 3 (continued)

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 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.

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.

Note 3 (continued)

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 average rates of exchange, 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 (see Schedule 15). The nature of the uncertainty in these items arises from several factors such as the effect on accrued income taxes of the verification of taxable income, the effect of valuation of private investments and hedge funds compared to what is ultimately realized, and the effect on accrued pension obligations of actual experience compared to assumptions.

Private investments and hedge funds of $3,886 million (2009 - $3,896 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.

Personal income tax revenue, totaling $7,877 million (2009: $8,708 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 1.5%.

Corporate income tax revenue, totaling $4,754 million (2009: $4,252 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

Note 3 (continued)

corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments.

Pension provisions of $356 million (2009: $1,821 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 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.

Note 4 (continued)

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:

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 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 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.

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 policy asset mix is: interest-bearing securities 20%, equities 50%, and inflation sensitive and alternative investments 30%.

The investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Heritage Science and Engineering Research Endowment 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, 2010 amounted to $456 million (2009: $344 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)
2010-11	$ 141
2011-12	101
2012-13	50
2013-14	37
2014-15	21
Thereafter	106
	$ 456

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 December 31, 2009, credit unions in Alberta held deposits totaling $16,021 million (2008: $15,103 million). Substantial assets are available from credit unions to safeguard the Department from risk of losing from its potential obligation under the Act.

The repayment of all deposits without limit, including accrued interest, is guaranteed by the Province of Alberta, through the Department, in respect of which the Department assesses an annual deposit guarantee fee payable by ATB Financial. Payments under the guarantee are under authority of a supply vote.

The Ministry has pledged a $300 million indemnity as its share of funding support under the senior funding facility established under the Montreal Accord as outlined in Note 11.

ATB Financial, at March 31, 2010, had a potential liability under guarantees and letters of credit amounting to $333 million (2009: $320 million).

The Department had other Indemnities and guarantees, at March 31, 2010, of $1 million (2009: $1 million) and N.A. Properties of $1 million (2009 - $1 million). Payments under guarantees are a statutory charge on the Ministry.

b) Legal Actions

At March 31, 2010, 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.

Note 7 (continued)

Of the various legal actions, the Department is jointly or separately named as a defendant in twenty-six (2009: twenty-seven) legal claims. Of the twenty-six claims, twenty have specified amounts totaling approximately $124 million (2009: $127 million) and six claims have no specified amount. Four (2009: six) claims totaling $1 million (2009: $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

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, liabilities, indices, interest rates or currency rates. The Ministry uses derivative contracts to enhance investment return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. Associated with these instruments are credit risks that could expose the Ministry 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. Credit exposure to counterparties is insignificant in relation to the notional principal amount. 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. 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 limits its credit exposure by dealing with counter-parties with good credit ratings.

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

				($ millions)	
	Maturity			2010	
	Under 1 Year	1 to 3 Years	Over 3 Years	Contract Notional Amount (a) (c)	Net Fair Value (b) (c)
Interest rate swap contracts	16%	10%	74%	$ 12,911	$ 31
Forward foreign exchange contracts	97%	3%	-	5,047	58
Credit default swap contracts	29%	39%	32%	3,925	(31)
Equity index swap contracts	90%	3%	7%	3,418	130
Equity index futures contracts	100%	-	-	2,211	149
Forward commodity contracts	79%	21%	-	1,622	1
Swap option contracts	95%	5%	-	631	(3)
Cross-currency interest rate swaps	26%	29%	45%	566	43
Embedded derivatives	19%	15%	66%	371	(46)
				$ 30,702	$ 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). Credit exposure is limited by dealing with counter parties believed to have good credit rating (A+ or greater).

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

c) Includes derivatives of ATB Financial with a contract notional amount of $6,570 million and a net fair value of $80 million. The exposure to credit risk on these derivatives of $227 million is reduced by entering into netting agreements of $8 million and collateral agreements with counter parties of $87 million leaving a residual credit exposure of $132 million.

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, 2010, trust and other funds under administration were as follows:

	($ millions) 2010	2009
Local Authorities Pension Plan Fund	$ 15,803	$ 13,224
Public Service Pension Plan Fund	5,617	4,578
The Workers' Compensation Board Accident Fund	1,416	1,421
Universities Academic Pension Plan Fund	2,336	1,903
Management Employees Pension Plan Fund	2,362	1,907
Special Forces Pension Plan Fund	1,370	1,145
Other	217	170
	$ 29,121	$ 24,348

NOTE 10 DEFINED BENEFIT PLANS

The Department sponsors and participates in the 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 (2009: $5 million).

At December 31, 2009, the Management Employees Pension Plan reported a deficiency of $483 million (2008: $569 million), the Public Service Pension Plan reported a deficiency of $1,729 million (2008: $1,188 million) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $40 million (2008: $7 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2010, the Bargaining Unit Plan reported a deficiency of $8 million (2009: $33 million) and the Management, Opted Out and Excluded Plan reported a surplus of $7 million (2009: deficiency of $1 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 11 ASSET BACKED SECURITIES

The Canadian market for third party or non-bank sponsored asset-backed commercial paper ("ABCP") suffered a liquidity disruption in mid-August 2007, following which a group of market participants including major investors, banks, asset providers, dealers, and third-party sponsors, agreed to work collectively to restructure this market segment. This agreement, which came to be known as the Montreal Accord ("the Accord") was finalized on January 21, 2009. The ABCP subject to the Accord were restructured into new longer-term floating rate notes that more closely matched the maturities of the underlying assets.

At March 31, 2010, the Ministry through its investments in the Department, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Scholarship 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 incurred write-downs of investments related to the Accord totaling $0.5 million (2009: $2 million). These charges are included in net investment income on the Consolidated Statements of Operations. The value of investments in ABCP at March 31, 2010 totaled $52 million at fair value and $63 million at cost (2009: $59 million at fair value and $63 million at cost).

Note 11 (continued)

Investments held by the ATB Financial that are consolidated on the modified equity basis had a recovery on ABCP of $0.5 million (2009: provision of $225 million). This recovery (2009: provision) is included in net income from commercial operations on the Consolidated Statements of Operations. As at March 31, 2010, the remaining estimated fair value of investments in ABCP was $614 million (2009: $702 million).

A senior funding facility was also established as part of the Accord to help investors and asset providers to achieve a stable and effective restructuring agreement. The participants of this facility are the governments of Canada, Quebec, Alberta and Ontario. The Government of Alberta has pledged a $300 million indemnity as its share of funding support.

Although the Montreal Accord restructuring successfully closed in January 2009, there remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie the new investment structure. 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.

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)	
	2010	**2009**
Incurred by Ministry of Finance and Enterprise	$ 67	$ 72
Incurred by external entities	84	101
	$ 151	$ 173

The Ministry received external investment management fee revenue of $84 (2009: $101) that has been reported on Schedule 1.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2010 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

(All dollar amounts in millions, unless otherwise stated)

REVENUES

Schedule 1

($ millions)

	2010		2009
	Budget	Actual	Actual
Income taxes			
Personal income tax	$ 8,559	$ 7,877	$ 8,708
Corporate income tax	2,447	4,754	4,252
	11,006	12,631	12,960
Other taxes			
Tobacco tax	915	864	828
Fuel tax	725	701	718
Insurance taxes	291	272	285
Alberta tourism levy	76	60	74
Special broker tax	7	7	8
Financial institutions capital	-	1	-
	2,014	1,905	1,913
Transfers from Government of Canada			
Community Development Trust	35	33	16
Unconditional subsidy	4	4	4
	39	37	20
Net investment income			
Investment income (loss)	1,697	3,351	(2,023)
Net income from commercial operations			
ATB Financial	148	128	7
Other	8	9	8
	156	137	15
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	-	38	-
ATB Financial deposit guarantee fee	25	24	29
Alberta Securities Commission	24	26	25
Alberta Insurance Council	4	4	5
Other	7	7	3
	60	99	62
Internal government transfers			
Internal government transfers	1	-	56
Other			
Pensions administration	40	38	35
Service revenue	143	140	131
Insurance services	13	14	12
Securities settlements	-	2	1
Refunds of expenditure and miscellaneous	14	1	1
	210	195	180
	$ 15,183	$ 18,355	$ 13,183

BUDGET

Schedule 2

	($ millions)				
	2009-10 Estimates	Adjustments (a)	2009-10 Budget	Authorized Supplementary Estimates (b)	2009-10 Authorized Budget
Revenues					
Income taxes	$ 11,006	$ -	$ 11,006	$ -	$ 11,006
Other taxes	2,014	-	2,014	-	2,014
Transfers from Government of Canada	39	-	39	-	39
Net investment income	1,697	-	1,697	-	1,697
Net income from commercial operations	156	-	156	-	156
Premiums, fees, and licences	60	-	60	-	60
Internal government transfers	1	-	1	-	1
Other	210	-	210	-	210
	15,183	-	15,183	-	15,183
Expenses					
Fiscal planning and economic analysis	5	-	5	-	5
Investment, treasury and risk management	490	-	490	-	490
Financial sector and pensions	470	-	470	-	470
Tax and revenue management	53	-	53	-	53
Enterprise	23	-	23	-	23
Ministry support services	10	-	10	-	10
Teachers' pre-1992 pension liability funding	356	-	356	-	356
Valuation adjustments	1	800	801	-	801
Debt servicing costs					
General government	161	-	161	-	161
School boards	20	-	20	-	20
	1,589	800	2,389	-	2,389
Net operating results	$ 13,594	$ (800)	$ 12,794	$ -	$ 12,794

a) Adjustments consisted of $800 million for pension provisions.

b) Estimates were approved on May 26, 2009 and there were no supplementary estimates for the Ministry.

EXPENSES BY OBJECT

Schedule 3

($ millions)

	2010		2009
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 156	$ 137	$ 120
Supplies and services	277	232	235
Grants	254	237	240
Interest and amortization of unrealized exchange gains and losses	441	315	405
Pension liability funding	433	419	317
Interest payments on corporate tax refunds	18	25	23
Valuation adjustments (Schedule 4)	801	357	1,822
Amortization of tangible capital assets	8	7	7
Other financial transactions	1	1	1
	$ 2,389	$ 1,730	$ 3,170

VALUATION ADJUSTMENTS

Schedule 4

($ millions)

	2010		2009
	Budget	Actual	Actual
Pension provisions (Schedule 15)	$ 800	$ 356	$ 1,821
Provision for employee benefits other than pensions	1	1	1
	$ 801	$ 357	$ 1,822

CASH AND TEMPORARY INVESTMENTS

Schedule 5

	($ millions) 2010	2009
Fixed-income securities [(a)]		
Corporate	$ 2,038	$ 2,579
Provincial, direct and guaranteed	1,059	1,709
Alberta guaranteed	-	115
Government of Canada, direct and guaranteed	316	1,400
Municipal	49	50
	3,462	5,853
Deposit in the Consolidated Cash Investment Trust Fund [(b)]	1,163	1,116
Cash in bank and in transit	150	233
	$ 4,775	$ 7,202

a) Fixed-income securities have an average effective yield of 0.34% (2009: 0.61%) per annum. All of the securities have terms to maturity of less than one year (2009: 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, 2010, securities held by the Fund have a time-weighted return of 1.0% per annum (2009: 3.0% per annum).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

Schedule 6

	($ millions) 2010	2009
Personal income tax	$ 412	$ 620
Corporate income tax	746	690
Accrued interest and receivable from sale of investments	351	342
Trade settlement receivable	25	284
Insurance taxes	79	77
ATB Financial	62	28
Fuel tax	52	61
Lottery Fund	13	26
Tobacco tax	10	9
Contributions receivable from credit union system	6	11
Tourism levy	5	5
Financial institutions capital tax	2	2
Other	16	16
	1,779	2,171
Less allowance for doubtful accounts	1	1
	$ 1,778	$ 2,170

PORTFOLIO INVESTMENTS

Schedule 7

($ millions)

	2010 Cost	2010 Fair Value	2009 Cost	2009 Fair Value
Interest-bearing securitites				
Deposits and short-term securitites	$ 46	$ 46	$ 45	$ 45
Bonds and mortages	19,744	20,123	19,701	19,953
	19,790	20,169	19,746	19,998
Equities				
Canadian public equitites	2,285	2,486	2,698	2,410
Global developed public equitites	5,898	6,024	5,005	4,873
Emerging markets public equitites	49	46	80	57
Private equitites	755	761	735	705
	8,987	9,317	8,518	8,045
Inflation sensitive and alternative investments				
Private real estate	1,524	1,873	1,614	2,297
Inflation sensitive real return bonds	95	97	1	-
Private infastructure investments	688	597	565	565
Absolute return strategy hedge funds	825	872	907	939
Timberland	94	94	75	102
	3,226	3,533	3,162	3,903
Total portfolio investments	$ 32,003	$ 33,019	$ 31,426	$ 31,946
Interest-bearing securitites				
Department [(a)]	$ 15,169	$ 15,532	$ 14,805	$ 15,227
Alberta Heritage Savings Trust Fund [(b)]	3,586	3,590	4,034	3,870
Other entities	1,035	1,047	907	901
	$ 19,790	$ 20,169	$ 19,746	$ 19,998
Average effective market yield				
Department		3.7%		3.0%
Alberta Heritage Savings Trust Fund		5.0%		7.2%

a) Of the Department's fixed income securities 26% 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:

	2010	2009
	%	
Under 1 year	3	5
1 to 5 years	33	36
6 to 10 years	36	27
11 to 20 years	13	15
Over 20 years	15	17
	100	100

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 8

	($ millions) 2010	2009
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,891	$ 1,790
Total revenue	1,065	1,227
Total expense	928	1,212
Net revenue	137	15
Change in accumulated unrealized gains	(77)	86
Accumulated surpluses at end of year	$ 1,951	$ 1,891
Represented by		
Assets		
Loans	$ 22,539	$ 21,606
Investments	1,279	1,339
Other assets	1,761	3,710
Total assets	25,579	26,655
Liabilities		
Accounts payable	779	539
Deposits	22,579	23,881
Unmatured debt	45	57
Capital deposits	225	287
Total liabilities	23,628	24,764
	$ 1,951	$ 1,891
Accumulated surpluses at end of year		
ATB Financial	$ 1,809	$ 1,759
Credit Union Deposit Guarantee Corporation	140	130
N.A. Properties (1994) Ltd.	2	2
	1,951	1,891
Subordinated debentures in support of deposit guarantees	46	57
Equity in commercial enterprises at end of year	$ 1,997	$ 1,948

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 9

	($ millions) 2010	2009
Agriculture Financial Services Corporation	$ 1,199	$ 1,108
Alberta Social Housing Corporation	180	203
	$ 1,379	$ 1,311

OTHER LOANS AND ADVANCES

Schedule 10

	($ millions) 2010	2009
Alberta Capital Finance Authority (a)	$ 8,141	$ 6,822
Alberta Heritage Savings Trust Fund Act (b)	290	294
Farm Credit Stability Act	-	1
	8,431	7,117
Less allowance for doubtful loans, advances, implemented guarantees and indemnitites (b)	158	158
	$ 8,273	$ 6,959

a) The fair value of the Alberta Capital Finance Authority loans as at March 31, 2010 was $8,647 million (2009: $7,305 million). Municipal loans on average yield 5.2% per annum (2009: 5.4%).

b) Other amounts under the Alberta Heritage Savings Trust Fund Act include an 11% participating first mortgage bond with principal and deferred interest totaling $173 million (2009: $178 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, 2010 these investments have carrying values excluding accrued interest of $173 million, $ nil, and $3 million respectively (2009: $178 million, $ nil and $3 million).

TANGIBLE CAPITAL ASSETS

Schedule 11

	($ millions) 2010				2009
	Equipment	Computer Hardware and Software	Leaseholds	Total	Total
Estimated useful life	10 years	5 years	10 years		
Historical Cost					
Beginning of year	$ 5	$ 54	$ 5	$ 64	$ 54
Additions	5	13	22	40	10
Disposals - including write-downs	-	(1)	-	(1)	-
	10	66	27	103	64
Accumulated Amortization					
Beginning of year	3	37	3	43	37
Amortization expense	1	11	2	14	6
Effect of disposals	-	(1)	-	(1)	-
	4	47	5	56	43
Net book value at March 31, 2010	$ 6	$ 19	$ 22	$ 47	
Net book value at March 31, 2009	$ 2	$ 18	$ 1		$ 21

ACCRUED INTEREST AND ACCOUNTS PAYABLE

Schedule 12

	2010 ($ millions)	2009 ($ millions)
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	$ 187	$ 153
Corporate income tax receipts in abeyance	462	532
Corporate income tax refunds payable	478	543
Community Development Trust	32	63
Other	318	339
	$ 1,477	$ 1,630

UNMATURED DEBT

Schedule 13

($ millions)

	2010				2009	
	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)	6.26	0.76	$ 493	$ 515	$ 40	$ 40
Fixed rate long-term (d) (e)	4.63	6.66	4,213	4,349	1,950	2,167
	4.80	6.03	$ 4,706	$ 4,864	$ 1,990	$ 2,207

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 $1,009 million (2009: $679 million) held by the Canada Pension Plan Investment Fund.

e) Includes Alberta Capital Bonds with a par value of $79 million (2009 $nil) 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 2010-11, and thereafter, are as follows:

	($ millions)
2010-11	$ 544
2011-12	390
2012-13	319
2013-14	111
2014-15	1,196
Thereafter to 2024	2,170
	4,730
Unamortized discount	(24)
	$ 4,706

None of the debt has call provisions (2009: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 14

	2010		2009	
($ millions)	Book Value	Fair Value	Book Value	Fair Value
Alberta Capital Finance Authority Canadian dollar fixed rate debt [(a)]	$ 5,564	$ 6,316	$ 6,812	$ 7,174
Alberta Capital Finance Authority Canadian dollar floating rate debt	2,536	2,434	-	-
	$ 8,100	$ 8,750	$ 6,812	$ 7,174
Effective rate per annum		5.0%		5.2%

a) Canadian dollar fixed rate debt includes $1,116 million (2009: $1,447 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 2010-11 and thereafter are as follows:

	($ millions)
2010-11	$ 1,270
2011-12	954
2012-13	1,675
2013-14	300
2014-15	717
Thereafter	3,184
	$ 8,100

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)

	2010 Pension Obligation	2010 Pension Provision (Recovery)	2010 Payout of pre '92 loan (f)	2009 Pension Obligation
Obligations to pension plans for Government of Alberta's employer share for former and current employees				
Local Authorities Pension Plan [a]	$ 314	$ 127	$ -	$ 186
Management Employees Pension Plan [b]	92	57	-	35
Supplementary Retirement Plan for Public Service Managers [c]	40	40	-	-
Provincial Judges and Masters in Chambers Pension Plan [d]	11	7	-	4
	457 *	231	-	225
Obligations to pension plans for Government of Alberta's commitment towards pre-1992 obligations				
Teachers' Pension Plan [f]	7,387	95	(1,186)	8,478
Public Service Management (Closed Membership) Pension Plan [g]	650	-	-	650
Universities Academic Pension Plan [h]	293	27	-	266
Special Forces Pension Plan [h]	120	8	-	112
	8,450	130	(1,186)	9,506
Obligations to the Members of the Legislative Assembly [i]	45	(5)	-	50
	$ 8,952	$ 356	$ (1,186)	$ 9,781

* 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 $6,261 million. The Government of Alberta's share of the total deficiency, as an employer, is $2,546 million of which $2,086 million is unamortized losses that will be amortized over the employee average remaining service life of each plan and $3 million is due to timing differences between the pension plans' fiscal year-ends and March 31, 2010 resulting in the pension plan obligation reported by the Government of Alberta for these plans of $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, 2020.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 15 (continued)

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 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.

d) 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, 2010 are 7.00% of *capped salary* for plan members and 16.16% 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.

e) 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 2.92% of pensionable earnings shared equally between employees and employers until December 31, 2020. Current services costs are funded by employers and employees.

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.

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.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 15 (continued)

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	December 31, 2008
Management Employees Pension Plan	Aon Consulting Inc.	December 31, 2008
Supplementary Retirement Plan	Aon Consulting Inc.	December 31, 2008
Provincial Judges and Masters in Chambers Pension Plan	Johnson Inc.	December 31, 2008
Public Service Pension Plan	Aon Consulting Inc.	December 31, 2008
Teachers' Pre-92 Pension Plan	Aon Consulting Inc.	August 31, 2009
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	December 31, 2008
Universities Academic Pension Plan	Mercer (Canada) Limited	December 31, 2008
Special Forces Pension Plan	Mercer (Canada) Limited	December 31, 2008
Members of the Legislative Assembly Pension Plan	Aon Consulting Inc.	March 31, 2009

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2009 or March 31, 2010 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	December 31, 2009	3.50	2.25	6.50
Management Employees Pension Plan	December 31, 2009	3.50	2.25	6.60
Supplementary Retirement Plan	December 31, 2009	3.50	2.25	4.70
Provincial Judges and Masters in Chambers Pension Plan	March 31, 2009	3.50	2.25	6.20
Public Service Pension Plan	December 31, 2009	3.50	2.25	6.60
Teachers' Pre-92 Pension Plan	March 31, 2010	3.50	2.25	5.00
Public Service Management (Closed Membership) Pension Plan	December 31, 2009	N/A	2.25	5.00
Universities Academic Pension Plan	March 31, 2010	3.50	2.25	6.90
Special Forces Pension Plan	December 31, 2009	3.50	2.25	6.90
Members of the Legislative Assembly Pension Plan	March 31, 2010	N/A	2.25	5.00

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the government 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) 2010	2009
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 160	$ 204
Vacation entitlements	9	8
	$ 169	$ 212

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.

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

	($ millions) 2010	2009
Revenues		
Transfers	$ -	$ 57
Interest from loans and advances to government entities	63	72
Interest from loans and advances to SUCH sector	54	53
Charges for services	12	11
	$ 129	$ 193
Expenses		
Debt servicing costs - school boards debt	$ 20	$ 25
Transfers	214	209
Cost of services	2	1
	$ 236	$ 235
Assets		
Accounts receivable	$ 13	$ 25
Accrued interest receivable from government entities	13	13
Accrued interest receivable from SUCH sector	18	20
Loans and advances to government entities	1,379	1,311
Loans and advances to SUCH sector	961	932
	$ 2,384	$ 2,301
Liabilities		
Other accrued liabilities - Future funding of school boards debt	$ 160	$ 204

RELATED PARTY TRANSACTIONS

Schedule 17 (continued)

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)	
	2010	**2009**
Expenses - incurred by others		
Accommodation and other costs	$ 7	$ 5
Legal Services	2	2
	$ 9	$ 7

DEPARTMENT OF FINANCE AND ENTERPRISE

Financial Statements

Year ended March 31, 2010

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statements of financial position of the Department of Finance and Enterprise as at March 31, 2010 and 2009 and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Department of Finance and Enterprise's 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 financial statements present fairly, in all material respects, the financial position of the Department as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Operations

Year ended March 31

	2010 Budget (Schedule 3)	2010 Actual	2009 Actual
	($ millions)		
Revenues (Schedule 1)			
Internal government transfers	$ 711	$ 2,006	$ 56
Income taxes	11,006	12,631	12,960
Other taxes	2,014	1,905	1,913
Investment income (Note 5)	513	768	752
Premiums, fees and licences	66	69	33
Transfers from Government of Canada	39	37	20
Other	4	5	1
	14,353	17,421	15,735
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	36	32	33
Investment, Treasury and Risk Management	17	11	8
Financial Sector and Pensions	9	7	7
Enterprise	23	21	24
Teachers' pre-1992 pension liability funding	356	341	242
Debt servicing costs - school construction	20	20	25
	477	447	354
Statutory (Schedules 2 and 4)			
Internal Government Transfers to:			
Access to the Future Fund	49	48	47
Interest payments on corporate tax refunds	18	25	23
Pension liability funding	77	78	75
Debt servicing costs	161	166	157
Valuation adjustments (Schedule 5)	801	357	1,822
	1,106	674	2,124
	1,583	1,121	2,478
Net Operating Results	$ 12,770	$ 16,300	$ 13,257

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

Statements of Financial Position

As At March 31

	($ millions) 2010		2009	
Assets				
Cash and temporary investments (Schedule 7)	$	4,558	$	6,982
Accounts and accrued interest receivable (Schedule 8)		1,627		2,053
Portfolio investments (Note 5 and Schedule 9)		15,169		14,805
Loans and advances to government entities (Schedule 10)		1,414		1,346
Tangible capital assets (Schedule 11)		9		7
	$	22,777	$	25,193
Liabilities				
Bank overdraft	$	875	$	1,258
Accounts and accrued interest payable (Schedule 12)		1,080		1,327
Unmatured debt (Schedule 13)		4,706		1,990
Pension obligations (Schedule 14)		8,952		9,781
Other accrued liabilities (Schedule 15)		166		210
		15,779		14,566
Net Assets				
Net assets at beginning of year		10,627		10,358
Adjustment to opening net assets		-		(159)
Net operating results		16,300		13,257
Net financing provided for general revenues (Note 2 (b))		(19,929)		(12,829)
Net assets at end of year		6,998		10,627
	$	22,777	$	25,193

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

Statements of Cash Flows

Year ended March 31

	($ millions) 2010	2009
Operating transactions		
Net operating results	$ 16,300	$ 13,257
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(103)	50
Amortization of tangible capital assets (Schedule 2)	1	2
Valuation adjustments (Schedule 5)	357	1,822
	16,555	15,131
Decrease (Increase) in receivables	426	(553)
(Decrease) Increase in payables	(247)	278
Cash provided by operating transactions	16,734	14,856
Capital transactions		
Acquisition of tangible capital assets (Schedule 11)	(3)	(3)
Cash applied to capital transactions	(3)	(3)
Investing transactions		
Disposals of portfolio investments	13,028	13,339
Portfolio investments purchased	(13,289)	(12,233)
Repayments of loans and advances		
Government entities	1,774	1,981
Other	1	1
Loans and advances - Government entities	(1,841)	(2,081)
Cash (applied to) provided by investing transactions	(327)	1,007
Financing transactions		
Debt issues	6,941	6,901
Debt retirement	(4,227)	(7,363)
Repayment of Teachers' Pre-92 Pension Plan obligation	(1,186)	-
Grants for school construction debenture principal repayment (Schedule 4)	(44)	(52)
Net financing provided for general revenues	(19,929)	(12,829)
Cash applied to financing transactions	(18,445)	(13,343)
(Decrease) Increase in cash	(2,041)	2,517
Cash and temporary investments, net of bank overdraft, beginning of year	5,724	3,207
Cash and temporary investments, net of bank overdraft, end of year	$ 3,683	$ 5,724

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

Notes to the Financial Statements

Year ended March 31
(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 Development Council; Regulatory Review Secretariat; and Corporate Support.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statements presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the Department.

a) REPORTING ENTITY

The reporting entity is the Department, 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.

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 operations for which the Minister of Finance and Enterprise is responsible.

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.

Note 2 (continued)

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.

Note 2 (continued)

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.

Investments are recorded at cost. 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.

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.

Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. 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.

Note 2 (continued)

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 $7,877 million (2009: $8,708 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 1.5%.

Corporate income tax revenue, totaling $4,754 million (2009: $4,252 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 $356 million (2009: $1,821 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.

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:

> 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 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 four risks – interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Department manages these four 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, disasters and natural gas rebates.

NOTE 5 ASSET BACKED SECURITIES

The Canadian market for third party or non-bank sponsored asset-backed commercial paper ("ABCP") suffered a liquidity disruption in mid-August 2007, following which a group of market participants including major investors, banks, asset providers, dealers, and third-party sponsors, agreed to work collectively to restructure this market segment. This agreement, which came to be known as the Montreal Accord ("the Accord") was finalized on January 21, 2009. The ABCP subject to the Accord were restructured into new longer-term floating rate notes that more closely matched the maturities of the underlying assets.

At March 31, 2010, the Department incurred write-downs of investments related to the Accord totaling $0.5 million (2009: $1 million). These charges are included in net investment income on the Statements of Operations. The value of all ABCP investments at March 31, 2010 totaled $20 million at fair value and $27 million at cost (2009: $26 million at fair value and $27 million at cost).

A senior funding facility was also established as part of the Accord to help investors and asset providers to achieve a stable and effective restructuring agreement. The participants of this facility are the governments of Canada, Quebec, Alberta and Ontario. The Government of Alberta has pledged a $300 million indemnity as its share of funding support.

Although the Montreal Accord restructuring successfully closed in January 2009, there remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie the new investment structure. 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.

NOTE 6 CONTRACTUAL OBLIGATIONS

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

	($ thousands)	
	2010	**2009**
Service contracts	$ 9,536	$ 18,390
Long-term leases	-	148
	$ 9,536	$ 18,538

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

	($ thousands)
	2010
	Service Contracts
2010-11	5,726
2011-12	2,649
2012-13	1,161
	$ 9,536

NOTE 7 CONTINGENT LIABILITIES

Set out below are details of contingencies resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 16.

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

a) GUARANTEES AND INDEMNITIES

Guaranteed liabilities at March 31, 2010 of government entities amounting to $30,933 million (2009: $30,970 million) are analyzed in Schedule 16. The Department also provides guarantees of other entities amounting to $1 million (2009: $1 million). 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 December 31, 2009 credit unions in Alberta held deposits totaling $16,021 million (2008 - $15,103 million). Substantial assets are available from credit unions to safeguard the Department from risk of losing from its potential obligation under the Act.

The repayment of all deposits without limit, including accrued interest, is guaranteed by the Province of Alberta, through the Department, in respect of which the Department assesses an annual deposit guarantee fee payable by ATB Financial. Payments under the guarantee are under authority of a supply vote.

The Department has pledged a $300 million indemnity under the senior funding facility established as part of the Montreal Accord, as outlined in Note 5.

b) LEGAL ACTIONS

At March 31, 2010, the Department is jointly or separately named as a defendant in twenty-six (2009: twenty-seven) legal claims. Of the twenty-six claims, twenty have specified amounts totaling approximately $124 million (2009: $127 million) and six claims have no specified amount. Four (2009: six) claims totaling $1 million (2009: $1 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2010, some taxes assessed were under objection and some were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 8 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

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

NOTE 8 TRUST AND OTHER FUNDS UNDER ADMINISTRATION (continued)

As at March 31, 2010, trust and other funds under administration were as follows:

	($ millions) 2010	2009
Local Authorities Pension Plan Fund	$ 15,803	$ 13,224
Public Service Pension Plan Fund	5,617	4,578
The Workers' Compensation Board Accident Fund	1,416	1,421
Universities Academic Pension Plan Fund	2,336	1,903
Management Employees Pension Plan Fund	2,362	1,907
Special Forces Pension Plan Fund	1,370	1,145
Other	217	170
	$ 29,121	$ 24,348

NOTE 9 DEFINED BENEFIT PLANS

The Department sponsors and participates in the multi-employer pension plans; 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, 2010 (2009: $5 million).

At December 31, 2009, the Management Employees Pension Plan reported a deficiency of $483 million (2008: $569 million), the Public Service Pension Plan reported a deficiency of $1,729 million (2008: $1,188 million) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $40 million (2008: $7 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2010, the Bargaining Unit Plan reported a deficiency of $8 million (2009: $33 million) and the Management, Opted Out and Excluded Plan reported a surplus of $7 million (2009: deficiency of $1 million). The expense for these two plans is limited to the employer’s annual contributions for the year.

NOTE 10 COMPARATIVE FIGURES

Certain 2009 figures have been reclassified to conform to the 2010 presentation.

NOTE 11 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

	2010 Budget	2010 Actual	2009 Actual
	($ millions)		
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 711	$ 2,006	$ -
Transfer from Lottery Fund	-	-	56
	711	2,006	56
Income taxes			
Personal income tax	8,559	7,877	8,708
Corporate income tax	2,447	4,754	4,252
	11,006	12,631	12,960
Other taxes			
Tobacco tax	915	864	828
Fuel tax	725	701	718
Insurance taxes	291	272	285
Alberta tourism levy	76	60	74
Special broker tax	7	7	8
Financial institutions capital	-	1	-
	2,014	1,905	1,913
Investment income	513	768	752
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	34	38	-
ATB Financial deposit guarantee fees	25	24	28
Other	7	7	5
	66	69	33
Transfers from Government of Canada			
Community Development Trust	35	33	16
Unconditional Grant	4	4	4
	39	37	20
Other revenues	4	5	1
	$ 14,353	$ 17,421	$ 15,735

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

Schedule 2

($ millions)

	2010		2009
	Budget	Actual	Actual
Voted			
Salaries, wages and employee benefits	$ 61	$ 56	$ 54
Supplies and services	30	24	23
Grants	27	24	32
Financial transactions and other	-	1	1
Pension liability funding	357	341	242
Amortization of tangible capital assets	2	1	2
	$ 477	$ 447	$ 354
Statutory			
Internal Government Transfers to:			
Access to the Future Fund	$ 49	$ 48	$ 47
Interest payments on corporate tax refunds	18	25	23
Pension liability funding	77	78	75
Debt servicing costs	161	166	157
Valuation adjustments (Schedule 5)	801	357	1,822
	$ 1,106	$ 674	$ 2,124
	$ 1,583	$ 1,121	$ 2,478

BUDGET

Schedule 3

($ millions)

	2009-10 Estimates	Adjustments (a)	2009-10 Budget	Authorized Supplementary Estimates (b)	2009-10 Authorized Budget
Revenues					
Internal government transfers	$ 711	$ -	$ 711	$ -	$ 711
Income taxes	11,006	-	11,006	-	11,006
Other taxes	2,014	-	2,014	-	2,014
Transfers from Government of Canada	39	-	39	-	39
Investment income	513	-	513	-	513
Premiums, fees and licences	66	-	66	-	66
Other	4	-	4	-	4
	14,353	-	14,353	-	14,353
Expenses - Directly Incurred					
Voted					
Ministry support services	11	-	11	-	11
Fiscal Planning and Economic Analysis	5	-	5	-	5
Tax and Revenue Management	36	-	36	-	36
Investment, Treasury and Risk Management	17	-	17	-	17
Financial Sector and Pensions	9	-	9	-	9
Enterprise	23	-	23	-	23
Teachers' pre-1992 pension - liability funding	356	-	356	-	356
Debt servicing costs - school construction	20	-	20	-	20
	477	-	477	-	477
Statutory					
Internal government transfers					
Access to the Future Fund	49	-	49	-	49
Interest payments on corporate tax refunds	18	-	18	-	18
Pension liability funding	77	-	77	-	77
Debt servicing costs	161	-	161	-	161
Valuation adjustments (Schedule 5)	1	800	801	-	801
	306	800	1,106	-	1,106
	783	800	1,583	-	1,583
Net operating results	$ 13,570	$ (800)	$ 12,770	$ -	$ 12,770
Equipment/inventory purchases	$ 2,512	$ -	$ 2,512	$ -	$ 2,512

a) Adjustments consist of $800 million for pension provisions.

b) Estimates were approved on May 26, 2009 and there were no supplementary estimates for the Ministry.

COMPARISON OF EXPENSES, EQUIPMENT/INVENTORY PURCHASES AND DISBURSEMENTS BY ELEMENT TO AUTHORIZED BUDGET

Schedule 4

($ thousands)

	2009-10 Budget	Authorized Supplementary Estimates	2009-10 Authorized Budget	2009-10 Actual Expense	Unexpended (Over Expended)
VOTED EXPENSES					
Ministry Support Services					
Operating Expense					
Minister's Office	$ 525	$ -	$ 525	$ 502	$ 23
Deputy Minister's Office	827	-	827	808	19
Strategic and Business Services	9,036	-	9,036	8,675	361
Communications	735	-	735	680	55
Cabinet Policy Committee on the Economy	240	-	240	230	10
	11,363	-	11,363	10,895	468
Equipment/Inventory Purchases	180	-	180	316	(136)
	11,543	-	11,543	11,211	332
Fiscal Planning and Economic Analysis					
Operating Expense					
Budget and Fiscal Planning	4,797	-	4,797	4,342	455
	4,797	-	4,797	4,342	455
Equipment/Inventory Purchases	-	-	-	30	(30)
	4,797	-	4,797	4,372	425
Tax and Revenue Management					
Operating Expense					
Tax and Revenue Administration	35,555	-	35,555	32,236	3,319
	35,555	-	35,555	32,236	3,319
Equipment/Inventory Purchases	2,082	-	2,082	2,003	79
	37,637	-	37,637	34,239	3,398
Investment, Treasury and Risk Management					
Operating Expense					
Treasury Management	15,504	-	15,504	9,171	6,333
Risk Management and Insurance	1,564	-	1,564	1,447	117
	17,068	-	17,068	10,618	6,450
Financial Sector and Pensions					
Operating Expense					
Assistant Deputy Minister's Office	1,675	-	1,675	978	697
Regulations of Pensions, Insurance and Financial Institutions	4,699	-	4,699	3,059	1,640
Public Sector Pensions	1,155	-	1,155	1,231	(76)
Capital Market Policy	631	-	631	350	281
Automobile Insurance Rate Board	1,326	-	1,326	902	424
	9,486	-	9,486	6,520	2,966
Equipment/Inventory Purchases	250	-	250	493	(243)
	9,736	-	9,736	7,013	2,723

COMPARISON OF EXPENSES, EQUIPMENT/INVENTORY PURCHASES AND DISBURSEMENTS BY ELEMENT TO AUTHORIZED BUDGET

Schedule 4 (continued)

($ thousands)

	2009-10 Budget	Authorized Supplementary Estimates	2009-10 Authorized Budget	2009-10 Actual Expense	Unexpended (Over Expended)
Enterprise					
Operating Expense					
Regulatory Review Secretariat	698	-	698	625	73
Program Development and Support	2,358	-	2,358	2,282	76
Alberta Economic Development Authority	658	-	658	622	36
Northern Alberta Development Council	2,406	-	2,406	2,103	303
Industry Development	8,381	-	8,381	7,908	473
Regional Development	8,099	-	8,099	6,985	1,114
	22,600	-	22,600	20,525	2,075
Teachers' pre-1992 pension liability funding					
Operating Expense	356,000	-	356,000	341,389	14,611
Voted Debt Servicing Costs - Grants for School Construction Debenture Interest					
Operating Expense	19,908	-	19,908	19,885	23
	479,289	-	479,289	449,252	30,037
Summary					
Program Operating Expense	$ 476,777	$ -	$ 476,777	$ 446,410	$ 30,367
Equipment/Inventory Purchases	2,512	-	2,512	2,842	(330)
	$ 479,289	$ -	$ 479,289	$ 449,252	$ 30,037
STATUTORY EXPENSES					
Internal Government Transfers to:					
Access to the Future Fund	$ 48,728	$ -	$ 48,728	$ 48,398	$ 330
Farm credit stability program	13	-	13	8	5
Interest payments on corporate tax refunds	18,000	-	18,000	24,883	(6,883)
Pension liability funding	76,700	-	76,700	77,654	(954)
Debt servicing costs	161,000	-	161,000	165,774	(4,774)
Valuation adjustments (Schedule 5)	801,000	-	801,000	357,210	443,790
	$ 1,105,441	$ -	$ 1,105,441	$ 673,927	$ 431,514
Voted Non-Budgetary Disbursements					
Grants for school construction debenture principal repayment	$ 43,660	$ -	$ 43,660	$ 43,660	$ -

VALUATION ADJUSTMENTS

Schedule 5

($ millions)

	2010 Budget	2010 Actual	2009 Actual
Pension provisions (Schedule 14)	$ 800	$ 356	$ 1,821
Provision for employee benefits, guarantees and indemnities	1	1	1
	$ 801	$ 357	$ 1,822

SALARY AND BENEFITS DISCLOSURE

Schedule 6

	2010 ($ thousands)				2009
	Base Salary [1]	Other Cash Benefits [2]	Other Non-Cash Benefits [3]	Total	Total
Senior Officials					
Deputy Minister of Finance and Enterprise (4) (5)	$ 259	$ -	$ 52	$ 311	$ 373
Executives					
Assistant Deputy Minister, Financial Sector Regulation and Policy	216	-	7	223	242
Assistant Deputy Minister, Treasury and Risk Management	213	-	53	266	288
Assistant Deputy Minister, Tax and Revenue Administration	185	-	12	197	249
Assistant Deputy Minister, Budget and Fiscal Planning	172	-	42	214	198
Assistant Deputy Minister, Strategic & Business Services	172	-	41	213	238
Assistant Deputy Minister, Enterprise	185	18	48	251	249
Executive Director, Human Resources (5)	121	-	29	150	202

(1) Base salary includes regular base pay. Total includes actual amounts paid and accrued amounts paid in April 2010 due to change to bi-weekly pay.

(2) Other cash benefits include vacation payouts (include overtime and/or lump sum payments if relevant for the particular circumstance). There were no bonuses paid in 2010.

(3) 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.

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

(5) The position was occupied by two individuals during 2010.

CASH AND TEMPORARY INVESTMENTS

Schedule 7

($ millions)	2010	2009
Fixed-income securities (a)		
Corporate	$ 2,037	$ 2,579
Provincial, direct and guaranteed	1,059	1,709
Municipal	49	50
Alberta, guaranteed	-	115
Government of Canada, direct and guaranteed	316	1,400
	3,461	5,853
Deposit in Consolidated Cash Investment Trust Fund (b)	947	896
Cash in bank and in transit	150	233
	$ 4,558	$ 6,982

a) Fixed-income securities have an average effective yield of 0.34% (2009: 0.61%) per annum. All of the securities have terms to maturity of less than one year (2009: 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, 2010, securities held by the Fund have a time-weighted return of 1.0% per annum (2009: 3.0% per annum).

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

Schedule 8

	($ millions) 2010	2009
Corporate income tax	$ 746	$ 690
Personal income tax	412	618
Trade settlement receivable	-	284
Accrued interest receivable	168	183
ATB Financial	107	85
Insurance corporations tax	79	77
Fuel tax	52	61
Lottery Fund	13	26
Tobacco tax	10	9
Contributions receivable from Credit Union Deposit Corporation [(a)]	6	11
Alberta Tourism Levy	5	5
Other	30	5
	1,628	2,054
Less allowance for doubtful accounts	1	1
	$ 1,627	$ 2,053

(a) Contributions are receivable under the Credit Union Restructuring Agreement maturing in 2010.

PORTFOLIO INVESTMENTS

Schedule 9

($ millions)

	2010		2009	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities				
Corporate	$ 6,571	$ 6,750	$ 6,121	$ 6,083
Provincial, direct and guaranteed	4,415	4,536	4,249	4,458
Government of Canada, direct and guaranteed	3,954	4,013	4,232	4,477
Municipal	229	233	203	209
	$ 15,169	$ 15,532	$ 14,805	$ 15,227

(a) 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, disasters and natural gas rebates. The securities held have an average effective market yield of 3.7% (2009: 3.0%) per annum and the following terms to maturity: under one year: 26%; one to five years: 62%; five to ten years: 9%; over ten years: 3%.

(b) 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.

(c) The following is a summary of the Department's proportionate share of the notional amount and fair value of derivative contracts held by the Universe Fixed Income Pool at March 31, 2010:

PORTFOLIO INVESTMENTS

Schedule 9 (continued)

	Maturity			2010		2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (1)	Fair Value (2)	Notional Amount	Fair Value
					($ millions)		
Credit default swap contracts	30%	38%	32%	$ 1,198	$ (9)	$ 2,015	$ (25)
Cross-currency interest rate swaps	11%	28%	61%	88	12	83	(6)
Interest rate swap contracts	-	77%	23%	50	1	98	(1)
Forward foregin exchange contracts	100%	-	-	47	1	29	(1)
Swap option contracts	100%	-	-	38	-	-	-
Futures contracts	100%	-	-	3	1	2	1
Bond index swap contracts	100%	-	-	-	-	63	1
				$ 1,424	$ 6	$ 2,290	$ (31)

1. 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).
2. The method of determining the fair value of derivative contracts is described in Note 2.

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Department uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) A futures contract is an agreement to receive or pay cash based on changes in the level of the specified index.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 10

($ millions)

	2010	2009
Agriculture Financial Services Corporation	$ 1,199	$ 1,108
Alberta Social Housing Corporation	181	203
Alberta Investment Management Corporation	32	32
Other	2	3
	$ 1,414	$ 1,346

TANGIBLE CAPITAL ASSETS

Schedule 11

	($ millions) 2010 Computer Hardware & Software	2009 Computer Hardware & Software
Estimated useful life	5 years	5 years
Historical Cost		
Beginning of year	$ 24	$ 21
Additions	3	3
	27	24
Accumulated Amortization		
Beginning of year	17	15
Amortization expense	1	2
	18	17
Net book value at March 31st	$ 9	$ 7

ACCOUNTS AND ACCRUED INTEREST PAYABLE

Schedule 12

	($ millions) 2010	2009
Corporate income tax receipts in abeyance	$ 462	$ 532
Corporate income tax refunds payable	478	543
Accrued interest on unmatured debt	47	19
Community Development Trust	32	63
Other	61	170
	$ 1,080	$ 1,327

UNMATURED DEBT

Schedule 13

($ millions)

	2010				2009	
	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)	6.26	0.76	$ 493	$ 515	$ 40	$ 40
Fixed rate long-term (d)(e)	4.63	6.66	4,213	4,349	1,950	2,167
	4.80	6.03	$ 4,706	$ 4,864	$ 1,990	$ 2,207

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.

UNMATURED DEBT

Schedule 13 (continued)

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 $1,009 million (2009: $679 million) held by the Canada Pension Plan Investment Fund.

e) Includes Alberta Capital Bonds with a par value of $79 million (2009 $nil) and borrowing of $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 2010-11, and thereafter are as follows:

	($ millions)
2010-11	$ 544
2011-12	390
2012-13	319
2013-14	111
2014-15	1,196
Thereafter	2,170
	4,730
Unamortized discount	(24)
	$ 4,706

None of the debt has call provisions (2009: 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)			
	2010		**2009**	
	Notional Amount	**Net Fair Value**	**Notional Amount**	**Net Fair Value**
Interest rate swaps	$ 100	1	$ -	-

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 had been 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)			
	2010 Pension Obligation	2010 Pension Provision (Recovery)	2010 Payout of pre '92 loan (f)	2009 Pension Obligation
Obligations to pension plans for Government of Alberta's employer share for former and current employees				
Local Authorities Pension Plan [a]	$ 314	$ 127	$ -	$ 186
Management Employees Pension Plan [b]	92	57	-	35
Supplementary Retirement Plan for Public Service Managers [c]	40	40	-	-
Provincial Judges and Masters in Chambers Pension Plan [d]	11	7	-	4
	457 ★	231	-	225
Obligations to pension plans for Government of Alberta's commitment towards pre-1992 obligations				
Teachers' Pension Plan [f]	7,387	95	(1,186)	8,478
Public Service Management (Closed Membership) Pension Plan [g]	650	-	-	650
Universities Academic Pension Plan [h]	293	27	-	266
Special Forces Pension Plan [h]	120	8	-	112
	8,450	130	(1,186)	9,506
Obligations to the Members of the Legislative Assembly [i]	45	(5)	-	50
	$ 8,952	$ 356	$ (1,186)	$ 9,781

★ 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 $6,261 million. The Government of Alberta's share of the total deficiency, as an employer, is $2,546 million of which $2,086 million is unamortized losses that will be amortized over the employee average remaining service life of each plan and $3 million is due to timing differences between the pension fiscal year-ends and March 31, 2010 resulting in the pension plan obligation reported by the Government of Alberta for these plans of $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, 2020.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 14 (continued)

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 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.

d) 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, 2010 are 7.00% of *capped salary* for plan members and 16.16% 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.

e) 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 2.92% of pensionable earnings shared equally between employees and employers until December 31, 2020. Current services costs are funded by employers and employees.

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.

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.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 14 (continued)

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

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2009 or March 31, 2010 for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The date of actuarial extrapolation and primary economic assumptions used for accounting purposes were:

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	December 31, 2009	3.50	2.25	6.50
Management Employees Pension Plan	December 31, 2009	3.50	2.25	6.60
Supplementary Retirement Plan	December 31, 2009	3.50	2.25	4.70
Provincial Judges and Masters in Chambers Pension Plan	March 31, 2009	3.50	2.25	6.20
Public Service Pension Plan	December 31, 2009	3.50	2.25	6.60
Teachers' Pre-92 Pension Plan	March 31, 2010	3.50	2.25	5.00
Public Service Management (Closed Membership) Pension Plan	December 31, 2009	N/A	2.25	5.00
Universities Academic Pension Plan	March 31, 2010	3.50	2.25	6.90
Special Forces Pension Plan	December 31, 2009	3.50	2.25	6.90
Members of the Legislative Assembly Pension Plan	March 31, 2010	N/A	2.25	5.00

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the government 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) 2010	2009
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 160	$ 204
Vacation entitlements	6	6
	$ 166	$ 210

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 16

	($ millions) 2010			2009
	Department of Finance and Enterprise	Others	Total	Total
Debentures				
Alberta Capital Finance Authority	$ -	$ 8,100	$ 8,100	$ 6,812
Alberta Social Housing Corporation	181	73	254	277
	181	8,173	8,354	7,089
Deposits				
ATB Financial	-	22,579	22,579	23,881
	$ 181	$ 30,752	$ 30,933	$ 30,970

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.

Entity	Date	Position	($ millions) 2010	2009
Alberta Capital Finance Authority	December 31, 2009	Shareholders' Equity	$ 57	$ 33
Alberta Social Housing Corporation	March 31, 2010	Surplus	$ 656	$ 596
ATB Financial	March 31, 2010	Equity	$ 1,809	$ 1,759

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 $57 million at December 31, 2009 (2008: $33 million), to municipal and other shareholders, which have borrowed money from the Corporation. During the 2010 fiscal year, the Department paid $64 million (2009: $77 million) to the Corporation by way of grants to school boards to satisfy their interest and

RELATED PARTY TRANSACTIONS

Schedule 17 (continued)

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 Statements of Operations and the Statements of Financial Position at the amount of consideration agreed upon between the related parties.

	($ millions)			
	Entities in the Ministry		**Other Entities**	
	2010	**2009**	**2010**	**2009**
Revenues				
Transfers	$ 2,006	$ -	$ -	$ 56
Interest	2	3	63	72
Charges for services	64	31	-	-
	$ 2,072	$ 34	$ 63	$ 128
Expenses				
Cost of services	$ 9	$ 4	$ 70	$ 73
Assets				
Accounts receivable	$ 113	$ 85	$ 13	$ 25
Accrued interest receivable	3	3	13	13
Loans and advances to government entities	34	34	1,379	1,311
	$ 150	$ 122	$ 1,405	$ 1,349
Liabilities				
School Construction Debentures	$ -	$ -	$ 160	$ 204
	$ -	$ -	$ 160	$ 204

	($ millions)	
	Other Entities	
	2010	**2009**
Expenses - incurred by others		
Accommodation and air travel	$ 7	$ 5
Legal services	2	2
	$ 9	$ 7

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

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 statements but are disclosed in Schedule 18.

Total allocated costs of $1,130 million are comprised of total expenses per Statements of Operations amounting to $1,121 million and expenses incurred by others amounting to $9 million.

1) Expenses – directly incurred as per Statements of Operations, excluding valuation adjustments.
2) Includes accommodation and air travel $7 million and legal services $2 million.
3) Includes vacation pay of $1 million and pension provisions of $356 million.

($ millions)

Program	Expenses (1)	Expenses incurred by Others (2)	Valuation Adjustments (3)	Total 2010	Total 2009
Ministry support services	$ 11	$ 1	$ 1	$ 13	$ 16
Fiscal planning and economic analysis	4	-	-	4	4
Tax and revenue management	57	4	-	61	35
Enterprise	21	1	-	22	24
Investment, treasury and risk management	11	3	-	14	9
Financial sector and pensions	7	-	-	7	7
Teachers' pension liability funding	341	-	-	341	242
Transfers and debt servicing costs and pensions	312	-	356	668	2,148
	$ 764	$ 9	$ 357	$ 1,130	$ 2,485

ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

Year Ended March 31, 2010

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statements of financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2010 and 2009 and the statements of operations and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Financial Position

As at March 31

	($ thousands) 2010	2009
Assets		
Portfolio investments (Note 3)	$ 488,675	$ 484,857
Liabilities		
Administration expense payable	$ 14	$ 26
Net Assets (Note 4)	488,661	484,831
	$ 488,675	$ 484,857

Statements of Operations and Net Assets

Years Ended March 31

	($ thousands) 2010 Budget	2010 Actual	2009 Actual
Investment income (Note 5)	$ 10,000	$ 25,952	$ 17,121
Investment expenses (Note 6)	-	(248)	(143)
Net investment income	10,000	25,704	16,978
Transfers to the Ministry of Health and Wellness (Note 4b)	(25,000)	(21,874)	(19,257)
Change in net assets	$ (15,000)	3,830	(2,279)
Net assets at beginning of year		484,831	487,110
Net assets at end of year		$ 488,661	$ 484,831

The accompanying notes are part of these financial statements.

Statements of Cash Flows

Years Ended March 31

	2010	2009
	($ thousands)	
Operating transactions		
Net investment income	$ 25,704	$ 16,978
Non-cash items included in net investment income	(636)	(666)
	25,068	16,312
(Decrease) increase in payables	(12)	26
Cash provided by operating transactions	25,056	16,338
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	21,874	19,306
Purchase of investments	(25,173)	(16,364)
Cash (applied to) provided by investing transactions	(3,299)	2,942
Transfers		
Transfers to the Foundation	(21,874)	(19,257)
Cash applied to transfers	(21,874)	(19,257)
(Decrease) increase in cash	(117)	23
Cash at beginning of year	202	179
Cash at end of year	$ 85	$ 202
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 85	$ 202

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2010
($ 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 A-14.2, 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

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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 5 and 6, 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.

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.

NOTE 2 (continued)

d) INVESTMENT VALUATION

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

($ thousands)

	2010			2009		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits **(a)**	$ 85	$ 85	-	$ 202	$ 202	-
Bonds **(b)**	488,590	498,265	100.0	484,655	500,727	100.0
	$ 488,675	**$ 498,350**	**100.0**	**$ 484,857**	**$ 500,929**	**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, being cash as reported in the Statements 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, 2010, deposits had a time-weighted return of 1.0% (2009: 3.0% 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, 2010, interest bearing bonds had an average effective market yield of 4.6% per annum (2009: 2.8% per annum) and the following term structure based on principal amount: under 1 year: 9% (2009: 5%); 1 to 5 years: 82% (2009: 85%); 5 to 10 years: 8% (2009: 9%); 10 to 20 years: 0% (2009: 0%); and over 20 years: 1% (2009: 1%).

NOTE 4 NET ASSETS

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 on July 7, 2006:

	($ thousands) Cumulative since 2006	
	2010	2009
Transfers from the General Revenue Fund (a)	$ 500,000	$ 500,000
Accumulated investment income	79,792	54,088
Accumulated transfers to the Ministry (b)	(91,131)	(69,257)
Net Assets, at cost	$ 488,661	$ 484,831
Net Assets, at fair value	$ 498,336	$ 500,903

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

(b) In accordance with section 6(1) of the Act, the Fund paid out $21,874 to the Minister of Health and Wellness during the year.

NOTE 5 NET INVESTMENT INCOME

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

	($ thousands) 2010			2009		
	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income
Interest-bearing securities	$ 25,952	$ 141	$ 25,811	$ 17,121	$ 84	$ 17,037
Fund investment expenses	-	107	(107)	-	59	(59)
	$ 25,952	**$ 248**	**$ 25,704**	**$ 17,121**	**$ 143**	**$ 16,978**

Investment income is comprised of interest, dividends, amortization of discount and premiums, security lending income and realized gains and losses, net of writedowns, on investments. The investment income for the year ended March 31, 2010, includes writedowns totalling $23 (2009: $7,438).

NOTE 6 INVESTMENT EXPENSES

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 directly by AIMCo are charged 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)	
	2010	**2009**
Total Investment Expenses	**$ 248**	**$ 143**
Average fair value of investments	499,640	496,915
Percent of investments at average fair value	0.05%	0.03%

NOTE 7 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 (1)	2010	2009	2 years	3 years
Actual gain (loss) (2)	3.8%	5.5%	4.7%	5.0%
Benchmark gain (loss) (2)	1.1%	7.7%	4.3%	n/a
Value added (lost) by investment manager	2.8%	-2.2%	0.3%	n/a

(1) 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).

(2) 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 8 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2010 presentation.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

Year Ended March 31, 2010

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statements of financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2010 and 2009 and the statements of operations and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Financial Postion

As at March 31

	($ thousands) 2010	2009
Assets		
Portfolio investments (Note 3)	$ 1,243,991	$ 1,174,363
Receivable from sale of investments	5,000	-
	1,248,991	**1,174,363**
Liabilities		
Administration expense payable	$ 93	$ 101
Net Assets (Note 6)	1,248,898	1,174,262
	$ 1,248,991	**$ 1,174,363**

Statements of Operations and Net Assets

Years Ended March 31

	($ thousands) 2010 Budget	2010 Actual	2009 Actual
Investment income (loss) (Note 7)	$ 50,809	$ 156,592	$ (253,400)
Investment expenses (Note 8)	(6,440)	(5,956)	(6,360)
Net investment income (loss)	44,369	150,636	(259,760)
Transfers to the Alberta Heritage Foundation for Medical Research (Note 6b)	(82,000)	(76,000)	(77,000)
Change in net assets	**$ (37,631)**	74,636	(336,760)
Net assets at beginning of year		1,174,262	1,511,022
Net assets at end of year		**$ 1,248,898**	**$ 1,174,262**

The accompanying notes are part of these financial statements.

Statements of Changes in Cash Flows

Years Ended March 31

	2010	2009
	($ thousands)	
Operating transactions		
Net investment income (loss)	$ 150,636	$ (259,760)
Non-cash items included in net investment income (loss)	(6,384)	8,746
	144,252	(251,014)
(Increase) decrease in receivables	(5,000)	9,003
(Decrease) increase in payables	(8)	31
Cash provided by (applied to) operating transactions	139,244	(241,980)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	902,863	463,020
Purchase of investments	(968,257)	(138,396)
Cash (applied to) provided by investing transactions	(65,394)	324,624
Transfers		
Transfers to the Foundation	(76,000)	(77,000)
Cash applied to transfers	(76,000)	(77,000)
(Decrease) increase in cash	(2,150)	5,644
Cash at beginning of year	14,114	8,470
Cash at end of year	$ 11,964	$ 14,114
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 11,964	$ 14,114

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2010
($ 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). Prior to January 1, 2010, the Fund operated under the *Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000.

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

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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 7 and 8, 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 income, 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.

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.

Note 2 (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) INVESTMENT VALUATION

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 income, 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, 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 appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
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 5, 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.

Note 2 (continued)

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.

NOTE 3 PORTFOLIO INVESTMENTS

	2010			2009		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities **(a)**	$ 14,779	$ 14,768	1.2	$ 17,476	$ 17,637	1.5
Bonds and mortgages **(b)**	269,872	271,609	21.2	218,809	210,357	18.3
	284,651	286,377	22.4	236,285	227,994	19.8
Equities						
Canadian public equities **(c)**	171,513	184,918	14.4	202,968	176,959	15.3
Global developed public equities **(d)**	514,447	526,061	41.0	445,698	414,626	35.9
Emerging markets public equities **(e)**	3,232	3,029	0.2	5,564	3,985	0.3
Private equities **(f)**	49,004	46,520	3.6	48,184	44,939	3.9
	738,196	760,528	59.2	702,414	640,509	55.4
Inflation sensitive and alternative investments						
Private real estate **(g)**	100,722	120,982	9.4	119,162	166,381	14.4
Inflation sensitive real return bonds **(h)**	7,013	7,179	0.5	-	-	-
Private infrastructure investments **(i)**	56,453	49,481	3.9	43,265	43,899	3.8
Absolute return strategy hedge funds **(j)**	50,774	52,346	4.1	68,292	68,682	6.0
Timberland **(k)**	6,182	6,150	0.5	4,945	6,670	0.6
	221,144	236,138	18.4	235,664	285,632	24.8
	$ 1,243,991	**$ 1,283,043**	**100.0**	**$ 1,174,363**	**$ 1,154,135**	**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, being cash as reported in the Statements of Cash Flow, of $11,964 (2009: $14,114) and short-term securities of $2,815 (2009: $3,362). 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, 2010, deposits and short-term securities had a time-weighted return of 1.0% (2009: 3.0% 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, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 5%); 1 to 5 years: 33% (2009: 36%); 5 to 10 years: 36% (2009: 27%); 10 to 20 years: 13% (2009: 15%); and over 20 years: 15% (2009: 17%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $34,899).

Note 3 (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. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $56,572 (2009: $112,002).

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. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $172,267 (2009: $246,930).

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

i) Private 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) Timberland investments are located primarily in Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

NOTE 4 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2009-2010 fiscal year:

Equities	52.5%
Interest-bearing securities	22.5%
Inflation sensitive and alternatives	25.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

NOTE 5 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. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows (usually settled every three months) based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Futures contracts are an agreement to receive or pay cash based on changes in the level of the specified index.

iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

Note 5 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2010:

	Maturity			($ thousands) March 31, 2010		March 31, 2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	99%	1%	-	$ 247,665	$ 6,875	$ 291,489	$ 834
Interest rate swap contracts	25%	55%	20%	64,060	(2,206)	98,977	(5,510)
Forward foreign exchange contracts	100%	-	-	299,674	3,853	229,845	(7,946)
Cross-currency interest rate swaps	23%	34%	43%	37,416	2,175	77,780	(2,871)
Credit default swap contracts	29%	39%	32%	185,426	(1,452)	310,885	(5,968)
Bond index swap contracts	-	-	-	-	-	9,272	71
Futures contracts	100%	-	-	195,063	13,081	103,704	15,749
Swap option contracts	100%	-	-	30,695	(165)	-	-
				$ 1,059,999	**$ 22,161**	**$ 1,121,952**	**$ (5,641)**

(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 Fund 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 2 (e).

NOTE 6 NET ASSETS

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 1980:

	($ thousands) Cumulative since 1980 2010	2009
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	1,646,898	1,496,262
Accumulated transfers to the Foundation (b)	(1,198,000)	(1,122,000)
Net Assets, at cost	**$ 1,248,898**	**$ 1,174,262**
Net Assets, at fair value	**$ 1,287,950**	**$ 1,154,034**

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

(b) In accordance with section 8(1) of the *Alberta Heritage Foundation for Medical Research Act*, the Fund paid out $76 million to the Alberta Heritage Foundation for Medical Research prior to December 31, 2009. That act was repealed on January 1, 2010, and the Fund was continued under the *Alberta Research and Innovation Act* (the Act). Section 12 of the Act limits the annual payments from the Fund to 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 7 NET INVESTMENT INCOME (LOSS)

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

	($ thousands)					
	2010			2009		
	Gross Income (Loss)	Expenses	Net Income (Loss)	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 79,921	$ 1,597	$ 78,324	$ (170,953)	$ 2,042	$ (172,995)
Canadian equities	25,258	285	24,973	(63,010)	241	(63,251)
Interest-bearing securities	17,161	307	16,854	(8,289)	446	(8,735)
Absolute return strategies	11,210	534	10,676	(24,362)	817	(25,179)
Private real estate	14,000	670	13,330	11,213	670	10,543
Private infrastructure investments	9,048	655	8,393	3,961	420	3,541
Timberland	1,318	47	1,271	(737)	38	(775)
Private equities	(1,408)	1,351	(2,759)	(1,223)	1,389	(2,612)
Inflation sensitive real return bonds	84	-	84	-	-	-
Fund investment expenses	-	510	(510)	-	297	(297)
	$ 156,592	**$ 5,956**	**$ 150,636**	**$ (253,400)**	**$ 6,360**	**$ (259,760)**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of writedowns, on investments. The investment income for the year ended March 31, 2010, includes writedowns totalling $8,380 (2009: $80,625).

NOTE 8 INVESTMENT EXPENSES

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 directly by AIMCo are charged 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)	
	2010	2009
Investment Expenses	**$ 5,956**	**$ 6,360**
Average fair value of investments	1,218,589	1,339,516
Percent of investments at average fair value	0.49%	0.48%

NOTE 9 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 (1)	2010	2009	5 years	10 years
Actual gain (loss) (2)	18.9%	-20.4%	3.8%	2.6%
Benchmark gain (loss) (2)	18.0%	-16.2%	4.4%	2.7%
Value added (lost) by investment manager	0.9%	-4.2%	-0.7%	-0.1%

(1) 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).

(2) 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 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2010 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2010

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statements of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2010 and 2009, and the statements of operations and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Financial Position

As at March 31

(in millions)

		2010		2009
Assets				
Portfolio investments (Note 3)	$	13,820	$	13,819
Receivable from sale of investments and accrued income		25		20
	$	13,845	$	13,839
Liabilities				
Due to the General Revenue Fund	$	6	$	-
Administration expense payable		1		1
		7		1
Net Assets (Note 6)		13,838		13,838
	$	13,845	$	13,839

Statements of Operations and Net Assets

Years Ended March 31

(in millions)

	2010				2009	
	Budget		Actual		Actual	
Investment income (loss) (Note 7)	$	778	$	2,077	$	(2,501)
Investment expenses (Note 8)		(67)		(71)		(73)
Net income (loss)		711		2,006		(2,574)
Transfers to the General Revenue Fund (Note 6b)		(711)		(2,006)		-
Net income (loss) retained in the Fund (Note 6b)	$	-		-		(2,574)
Net Assets at beginning of year				13,838		16,412
Net Assets at end of year			$	13,838	$	13,838

The accompanying notes are part of these financial statements.

Statements of Cash Flows

Years Ended March 31

(in millions)

	2010	2009
Operating transactions		
Net income (loss)	$ 2,006	$ (2,574)
Non-cash items included in net income (loss)	(149)	63
	1,857	(2,511)
(Increase) decrease in accounts receivable	(5)	1
Decrease in accounts payable	-	(60)
Cash provided by (applied to) operating transactions	1,852	(2,570)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	10,833	4,323
Purchase of investments	(10,702)	(1,983)
Cash provided by investing transactions	131	2,340
Transfers		
Transfers to the General Revenue Fund	(2,006)	-
Increase in amounts due to the General Revenue Fund	6	113
Cash (applied to) provided by transfers	(2,000)	113
Decrease in cash	(17)	(117)
Cash at beginning of year	100	217
Cash at end of year	$ 83	$ 100
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 83	$ 100

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2010
(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

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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 7 and 8, 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 income, 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.

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.

Note 2 (continued)

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) INVESTMENT VALUATION

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 income, private real estate, loans, absolute return strategies and 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, 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 is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

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.

Note 2 (continued)

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 4, 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 changes in the underlying swap.

NOTE 3 PORTFOLIO INVESTMENTS (in millions)

	2010			2009		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits and short-term securities **(a)**	$ 123	$ 123	0.8	$ 137	$ 138	1.0
Bonds and mortgages **(b)**	3,546	3,550	24.7	3,998	3,832	27.5
	3,669	3,673	25.5	4,135	3,970	28.5
Equities						
Canadian public equities **(c)**	1,843	2,012	14.0	2,205	1,981	14.2
Global developed public equities **(d)**	4,815	4,917	34.2	4,084	4,016	28.8
Emerging markets public equities **(e)**	42	39	0.3	67	48	0.3
Private equities **(f)**	667	677	4.7	650	625	4.5
	7,367	7,645	53.2	7,006	6,670	47.8
Inflation sensitive and alternative investments						
Private real estate **(g)**	1,302	1,614	11.2	1,345	1,935	13.8
Inflation sensitive real return bonds **(h)**	80	82	0.6	-	-	-
Private infrastructure investments **(i)**	580	502	3.5	484	483	3.5
Absolute return strategy hedge funds **(j)**	738	783	5.4	782	813	5.8
Timberland **(k)**	84	83	0.6	67	90	0.6
	2,784	3,064	21.3	2,678	3,321	23.7
	$ 13,820	**$ 14,382**	**100.0**	**$ 13,819**	**$ 13,961**	**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 5).

Note 3 (continued) (in millions)

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund, being cash as reported in the Statements of Cash Flows, of $83 (2009: $100) and short-term securities of $40 (2009: $37). 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, 2010, deposits and short-term securities had a time-weighted return of 1.0% per annum (2009: 3.0% 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, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 5%); 1 to 5 years: 33% (2009: 36%); 5 to 10 years: 36% (2009: 27%); 10 to 20 years: 13% (2009: 15%); and over 20 years: 15% (2009: 17%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $406).

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 $173 (2009: $177.5) due July 31, 2015 and a loan with principal of $53 due July 2046. At March 31, 2010, these policy investments have carrying values, excluding accrued interest, of $129.5 and $3 respectively (2009: $134 and $2.8). Subsequent to the year end, an independent valuation was received which estimated the fair value of the 11% participating first mortgage bonds to be $149.4 at March 31, 2010, excluding accrued interest.

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. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $586 (2009: $1,243).

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. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $1,727 (2009: $2,404).

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

i) Private 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.

Note 3 (continued) (in millions)

k) Timberland investments are located primarily in Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

NOTE 4 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. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows (usually settled every three months) based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Futures contracts are an agreement to receive or pay cash based on changes in the level of the specified index.

iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2010 (in millions):

	Maturity			2010		2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	99%	1%	-	$ 2,520	$ 67	$ 2,910	$ 9
Interest rate swap contracts	31%	56%	13%	638	(21)	1,088	(55)
Forward foreign exchange contracts	100%	-	-	3,232	50	2,635	(94)
Cross-currency interest rate swaps	30%	28%	42%	396	27	854	(32)
Credit default swap contracts	29%	39%	32%	2,297	(18)	5,398	(88)
Bond index swap contracts	-	-	-	-	-	165	1
Futures contracts	100%	-	-	1,811	121	1,160	175
Swap option contracts	100%	-	-	472	(3)	-	-
				$ 11,366	$ 223	$ 14,210	$ (84)

(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 Fund 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 2 (e).

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the Business Plan contained the following asset mix policy ranges for the Fund for 2009-10:

Interest-bearing securities	**15-45%**
Deposits and short-term securities	0-25%
Bonds and mortgages	10-35%
Long bonds	0-10%
Equities	**35-70%**
Canadian public equities	0-15%
Global developed public equities	20-65%
Emerging markets public equities	0-10%
Frontier market public equities	0-5%
Private equities	0-10%
Inflation sensitive and alternative investments	**15-40%**
Private real estate	10-20%
Inflation sensitive real return bonds	0-10%
Private infrastructure investments	5-15%
Absolute return strategy hedge funds	0-10%
Timberland	0-5%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 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	
	2010	2009
Accumulated net income	$ 30,226	$ 28,220
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	(30,431)	(28,425)
Amount Retained for Inflation-proofing	1,562	1,562
	(28,869)	(26,863)
Capital Expenditures (1976-1995) (c)	(3,486)	(3,486)
	(32,355)	(30,349)
Net Assets, at cost	**$ 13,838**	**$ 13,838**
Net Assets, at fair value	**$ 14,400**	**$ 13,980**

(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 $2,006 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $2,006 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $0, 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.

NOTE 7 INVESTMENT INCOME (LOSS) (in millions)

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

	2010			2009		
	Gross Income (Loss)	Expenses	Net Income (Loss)	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 1,059	$ 16	$ 1,043	$ (1,629)	$ 20	$ (1,649)
Canadian equities	369	3	366	(666)	3	(669)
Interest-bearing securities	278	4	274	(67)	5	(72)
Absolute return strategies	158	8	150	(277)	10	(287)
Private real estate	118	8	110	97	8	89
Private infrastructure investments	92	6	86	66	4	62
Timberland	18	1	17	(10)	1	(11)
Private equities	(16)	19	(35)	(15)	19	(34)
Inflation sensitive real return bonds	1	-	1	-	-	-
Fund investment expenses	-	6	(6)	-	3	(3)
	$ 2,077	**$ 71**	**$ 2,006**	**$ (2,501)**	**$ 73**	**$ (2,574)**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of writedowns, on investments. The investment income for the year ended March 31, 2010, includes writedowns totalling $101 million (2009: $883 million).

NOTE 8 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 directly by AIMCo are charged 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.

	2010	2009
Total Investment Expenses	**$ 71**	**$ 73**
Average fair value of investments	14,172	15,466
Percent of investments at average fair value	0.50%	0.47%

NOTE 9 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 (1)	2010	2009	5 years	10 years
	(in percent)			
Actual gain (loss) (2)	17.8%	-18.1%	4.4%	4.3%
Benchmark gain (loss) (2)	16.3%	-14.0%	4.7%	4.2%
Value added (lost) by investment manager	1.5%	-4.1%	-0.3%	0.1%

(1) 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).

(2) 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 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2010 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

March 31, 2010

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statements of financial position of the Alberta Heritage Scholarship Fund as at March 31, 2010 and 2009 and the statements of operations and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Financial Position

As at March 31

	($ thousands) 2010	2009
Assets		
Portfolio investments (Note 3)	$ 689,692	$ 643,968
Receivable from sale of investments	1,000	-
Contributions receivable	1,677	807
	$ 692,369	**$ 644,775**
Liabilities		
Administration expense payable	$ 66	$ 57
Net Assets (Note 6)	692,303	644,718
	$ 692,369	**$ 644,775**

Statements of Operations and Net Assets

Years Ended March 31

	($ thousands) 2010 Budget	2010 Actual	2009 Actual
Investment income (loss) (Note 7)	$ 19,926	$ 83,804	$ (137,235)
Investment expenses (Note 8)	(2,377)	(2,616)	(2,529)
Net investment income (loss)	17,549	81,188	(139,764)
Transfers from Alberta Government departments	1,000	327	1,307
Other contributions	840	1,965	875
Scholarships	(39,132)	(35,895)	(34,639)
Change in Net Assets	**$ (19,743)**	47,585	(172,221)
Net Assets at beginning of year		644,718	816,939
Net Assets at end of year		**$ 692,303**	**$ 644,718**

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

Statements of Cash Flows

Years Ended March 31

	2010	2009
	($ thousands)	
Operating transactions		
Net investment income (loss)	$ 81,188	$ (139,764)
Non-cash items included in net investment income (loss)	5,216	13,507
	86,404	(126,257)
(Increase) decrease in receivables	(1,870)	175
Increase in payables	9	12
Cash provided by (applied to) operating transactions	84,543	(126,070)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	529,221	238,357
Purchase of investments	(578,082)	(81,652)
Cash (applied to) provided by investing transactions	(48,861)	156,705
Transfers		
Transfers from Alberta Government departments	327	1,307
Other contributions	1,965	875
Transfers to Advanced Education for Scholarships	(35,895)	(34,639)
Cash applied to transfers	(33,603)	(32,457)
Increase (decrease) in cash	2,079	(1,822)
Cash at beginning of year	8,704	10,526
Cash at end of year	$ 10,783	$ 8,704
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 10,783	$ 8,704

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

Notes to the Financial Statements

March 31, 2010
($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act*, Chapter A-24, Revised Statutes of Alberta 2000 (the Act).

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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 7 and 8, 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 income, 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.

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.

Note 2 (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) INVESTMENT VALUATION

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 real estate, absolute return strategies and other private placements. 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 is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

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 5, 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.

Note 2 (continued)

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.

NOTE 3 PORTFOLIO INVESTMENTS

	($ thousands)			*($ thousands)*		
	2010			**2009**		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits and short-term securities **(a)**	$ 12,301	$ 12,294	1.7	$ 10,189	$ 10,266	1.7
Bonds and mortgages **(b)**	187,788	188,383	26.5	151,830	145,145	23.5
	200,089	200,677	28.2	162,019	155,411	25.2
Equities						
Canadian public equities **(c)**	150,780	161,633	22.8	166,897	143,199	23.1
Global developed public equities **(d)**	236,071	241,051	34.0	197,178	183,039	29.6
Emerging markets public equities **(e)**	1,941	1,669	0.2	3,322	2,159	0.3
Private equities **(f)**	11,327	11,297	1.6	10,398	10,318	1.7
	400,119	415,650	58.6	377,795	338,715	54.7
Inflation sensitive and alternative investments						
Private real estate **(g)**	59,302	65,622	9.2	72,055	92,215	14.9
Inflation sensitive real return bonds **(h)**	3,506	3,589	0.5	-	-	-
Private infrastructure investments **(i)**	18,951	16,731	2.4	12,280	12,444	2.0
Absolute return strategy hedge funds **(j)**	6,860	6,896	1.0	19,127	18,672	3.0
Timberland **(k)**	865	861	0.1	692	933	0.2
	89,484	93,699	13.2	104,154	124,264	20.1
	$ 689,692	**$ 710,026**	**100.0**	**$ 643,968**	**$ 618,390**	**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, being cash as reported in the Statements of Cash Flows, of $10,783 (2009: $8,704) and short-term securities of $1,518 (2009: $1,485). 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, 2010, deposits and short-term securities had a time-weighted return of 1.0% (2009: 3.0% per annum).

Note 3 (continued)

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, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 5%); 1 to 5 years: 33% (2009: 36%); 5 to 10 years: 36% (2009: 27%); 10 to 20 years: 13% (2009: 15%); and over 20 years: 15% (2009: 17%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $18,156).

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. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $50,407 (2009: $90,549).

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. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $79,655 (2009: $108,803).

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

i) Private 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) Timberland investments are located primarily in Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

NOTE 4 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2009-2010 fiscal year:

Equities	52%
Interest-bearing securities	26%
Inflation sensitive and alternatives	22%

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows (usually settled every three months) based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Futures contracts are an agreement to receive or pay cash based on changes in the level of the specified index.

iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

NOTE 5 DERIVATIVE CONTRACTS

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2010:

($ thousands)

	Maturity			2010		2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	98%	2%	-	$ 141,803	$ 3,763	$ 149,574	$ 722
Interest rate swap contracts	32%	56%	12%	39,859	(1,339)	59,199	(3,188)
Forward foreign exchange contracts	100%	-	-	114,822	921	79,792	(2,232)
Cross-currency interest rate swaps	32%	27%	41%	23,464	1,623	40,023	(1,626)
Credit default swap contracts	29%	39%	32%	133,542	(1,043)	213,547	(3,836)
Bond index swap contracts	-	-	-	-	-	6,448	50
Futures contracts	100%	-	-	92,258	6,149	69,031	11,180
Swap option contracts	100%	-	-	17,430	(85)	-	-
				$ 563,178	**$ 9,989**	**$ 617,614**	**$ 1,070**

(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 Fund 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 2 (e).

NOTE 6 NET ASSETS

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 1981:

($ thousands)

	Cumulative since 1981	
	2010	2009
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 100,000	$ 100,000
Transfers from the General Revenue Fund (b)	497,000	497,000
Other contributions	18,097	15,805
Accumulated investment income	528,096	446,908
Accumulated scholarship payments (a)	(450,890)	(414,995)
Net Assets, at cost	**$ 692,303**	**$ 644,718**
Net Assets, at fair value	**$ 712,637**	**$ 619,140**

(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 7 INVESTMENT INCOME (LOSS) (in thousands)

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

($ thousands)

	2010			2009		
	Gross Income (Loss)	Expenses	Net Income (Loss)	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 38,009	$ 740	$ 37,269	$ (74,419)	$ 888	$ (75,307)
Canadian equities	21,861	245	21,616	(57,170)	200	(57,370)
Interest-bearing securities	11,900	182	11,718	(4,594)	214	(4,808)
Absolute return strategies	2,378	124	2,254	(6,631)	218	(6,849)
Private real estate	6,815	362	6,453	4,857	368	4,489
Private infrastructure investments	2,803	255	2,548	943	122	821
Timberland	184	7	177	(103)	5	(108)
Private equities	(188)	402	(590)	(118)	348	(466)
Inflation sensitive real return bonds	42	-	42	-	-	-
Fund investment expenses	-	299	(299)	-	166	(166)
	$ 83,804	**$ 2,616**	**$ 81,188**	**$ (137,235)**	**$ 2,529**	**$ (139,764)**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of writedowns, on investments. The investment income for the year ended March 31, 2010, includes writedowns totalling $3,348 (2009: $42,964).

NOTE 8 INVESTMENT EXPENSES

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 directly by AIMCo are charged 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)

	2010	2009
Total Investment Expenses	**$ 2,616**	**$ 2,529**
Average fair value of investments	664,208	714,973
Percent of investments at average fair value	0.39%	0.35%

NOTE 9 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 (1)	2010	2009	5 years	10 years
Actual gain (loss) (2)	21.0%	-20.2%	4.5%	3.0%
Benchmark gain (loss) (2)	19.1%	-16.6%	4.9%	3.0%
Value added (lost) by investment manager	1.9%	-3.6%	-0.4%	0.0%

(1) 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).

(2) 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 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2010 presentation.

NOTE 11 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

March 31, 2010

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statements of financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2010 and 2009 and the statements of operations and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Financial Position

As at March 31

($ thousands)

	2010	2009
Assets		
Portfolio investments (Note 3)	$ 706,450	$ 657,620
Receivable from sale of investments	1,500	-
	$ 707,950	$ 657,620
Liabilities		
Administration expense payable	$ 64	$ 58
Net Assets (Note 6)	707,886	657,562
	$ 707,950	$ 657,620

Statements of Operations and Net Assets

Years Ended March 31

($ thousands)

	2010		2009
	Budget	Actual	Actual
Investment income (loss) (Note 7)	$ 29,251	$ 85,594	$ (139,752)
Investment expense (Note 8)	(3,699)	(3,370)	(3,566)
Net investment income (loss)	25,552	82,224	(143,318)
Transfers to the Alberta Heritage Foundation for Science and Engineering Research (Note 6b)	(32,276)	(31,900)	(29,800)
Change in net assets	**$ (6,724)**	50,324	(173,118)
Net assets at beginning of year		657,562	830,680
Net assets at end of year		**$ 707,886**	**$ 657,562**

The accompanying notes are part of these financial statements.

Statements of Cash Flows

Years Ended March 31

	($ thousands)	
	2010	**2009**
Operating transactions		
Net investment income (loss)	$ 82,224	$ (143,318)
Non-cash items included in net investment income (loss)	6,279	7,198
	88,503	(136,120)
(Increase) decrease in receivables	(1,500)	2
Increase in payables	6	17
Cash provided by (applied to) operating transactions	87,009	(136,101)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	493,446	243,128
Purchase of investments	(545,597)	(76,630)
Cash (applied to) provided by investing transactions	(52,151)	166,498
Transfers		
Transfers to the Foundation	(31,900)	(29,800)
Cash applied to transfers	(31,900)	(29,800)
Increase in cash	2,958	597
Cash at beginning of year	4,277	3,680
Cash at end of year	$ 7,235	$ 4,277
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 7,235	$ 4,277

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2010
($ 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). Prior to January 1, 2010, the Fund operated under the *Alberta Heritage Foundation for Science and Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2000.

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

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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 7 and 8, 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 income, 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.

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.

Note 2 (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) INVESTMENT VALUATION

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 income, 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, 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 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 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 5, 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.

Note 2 (continued)

(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.

NOTE 3 PORTFOLIO INVESTMENTS

	($ thousands)			($ thousands)		
	2010			2009		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities **(a)**	$ 8,883	$ 8,877	1.2	$ 6,072	$ 6,148	1.0
Bonds and mortgages **(b)**	159,667	160,781	22.1	135,501	130,273	20.2
	168,550	169,658	23.3	141,573	136,421	21.2
Equities						
Canadian public equities **(c)**	92,432	99,675	13.7	101,571	86,849	13.4
Global developed public equities **(d)**	290,672	297,241	40.9	248,428	231,352	35.9
Emerging markets public equities **(e)**	1,872	1,715	0.3	3,276	2,288	0.4
Private equities **(f)**	27,017	25,645	3.5	26,479	24,549	3.8
	411,993	424,276	58.4	379,754	345,038	53.5
Inflation sensitive and alternative investments						
Private real estate **(g)**	58,612	68,494	9.4	71,553	97,033	15.0
Inflation sensitive real return bonds **(h)**	3,506	3,589	0.5	-	-	-
Private infrastructure investments **(i)**	31,271	27,353	3.8	24,059	24,313	3.8
Absolute return strategy hedge funds **(j)**	28,801	29,916	4.1	37,708	38,262	5.9
Timberland **(k)**	3,717	3,697	0.5	2,973	4,010	0.6
	125,907	133,049	18.3	136,293	163,618	25.3
	$ 706,450	**$ 726,983**	**100.0**	**$ 657,620**	**$ 645,077**	**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, being cash as reported in the Statements of Cash Flow, of $7,235 (2009: $4,277) and short-term securities of $1,647 (2009: $1,795). 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, 2010, deposits and short-term securities had a time-weighted return of 1.0% per annum (2009: 3.0% 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, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 5%); 1 to 5 years: 33% (2009: 36%); 5 to 10 years: 36% (2009: 27%); 10 to 20 years: 13% (2009: 15%); and over 20 years: 15% (2009: 17%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $19,509).

Note 3 (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. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $30,213 (2009: $54,296).

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. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $97,412 (2009: $138,566).

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

i) Private 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) Timberland investments are located primarily in Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

NOTE 4 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2009-2010 fiscal year:

Equities	52.5%
Interest-bearing securities	22.5%
Inflation sensitive and alternatives	25.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

NOTE 5 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. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows (usually settled every three months) based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Futures contracts are an agreement to receive or pay cash based on changes in the level of the specified index.

iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

Note 5 (continued)

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2010:

	Maturity			2010		2009	
($ thousands)	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	99%	1%	-	$ 138,327	$ 3,833	$ 159,502	$ 391
Interest rate swap contracts	25%	55%	20%	35,874	(1,215)	54,002	(2,952)
Forward foreign exchange contracts	100%	-	-	169,829	2,168	125,623	(4,432)
Cross-currency interest rate swaps	22%	34%	44%	21,425	1,284	43,805	(1,620)
Credit default swap contracts	29%	39%	32%	111,165	(870)	192,577	(3,523)
Bond index swap contracts	-	-	-	-	-	5,781	44
Futures contracts	100%	-	-	110,141	7,389	53,567	7,952
Swap option contracts	100%	-	-	18,351	(99)	-	-
				$ 605,112	**$ 12,490**	**$ 634,857**	**$ (4,140)**

(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 Fund 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 2 (e).

NOTE 6 NET ASSETS

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:

	($ thousands) Cumulative since 2000	
	2010	2009
Transfers from the General Revenue Fund (a)	$ 721,430	$ 721,430
Accumulated investment income	153,442	71,218
Accumulated transfers to the Foundation (b)	(166,986)	(135,086)
Net Assets, at cost	**$ 707,886**	**$ 657,562**
Net Assets, at fair value	**$ 728,419**	**$ 645,019**

(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) 2010
Accumulated unused spending limit at March 31, 2009	$ 23,470
4.5% of average market value on March 31, 2007-09	35,621
Spending limit for the year ended March 31, 2010	59,091
Transfers to Foundation during 2009-10	(31,900)
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 the year ended March 31, 2011	$ 60,356

NOTE 7 INVESTMENT INCOME (LOSS)

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

($ thousands)

	2010			2009		
	Gross Income (Loss)	Expenses	Net Income (Loss)	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 44,473	$ 894	$ 43,579	$ (95,406)	$ 1,140	$ (96,546)
Canadian equities	10,944	149	10,795	(33,926)	119	(34,045)
Interest-bearing securities	10,473	177	10,296	(4,334)	244	(4,578)
Absolute return strategies	6,388	299	6,089	(13,462)	458	(13,920)
Private real estate	8,329	377	7,952	6,039	387	5,652
Private infrastructure investments	4,963	363	4,600	2,434	234	2,200
Timberland	793	28	765	(443)	23	(466)
Private equities	(811)	772	(1,583)	(654)	786	(1,440)
Inflation sensitive real return bonds	42	-	42	-	-	-
Fund investment expenses	-	311	(311)	-	175	(175)
	$ 85,594	**$ 3,370**	**$ 82,224**	**$ (139,752)**	**$ 3,566**	**$ (143,318)**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of writedowns, on investments. The investment income for the year ended March 31, 2010, includes writedowns totalling $4,668 (2009: $43,932).

NOTE 8 INVESTMENT EXPENSES

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 directly by AIMCo are charged 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)

	2010	2009
Total Investment Expenses	**$ 3,370**	**$ 3,566**
Average fair value of investments	686,030	741,327
Percent of investments at average fair value	0.49%	0.48%

NOTE 9 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 (1)	2010	2009	5 years	9 years
Actual gain (loss) (2)	18.3%	-19.7%	3.6%	4.1%
Benchmark gain (loss) (2)	17.6%	-15.8%	4.2%	4.3%
Value added (lost) by investment manager	0.7%	-3.9%	-0.7%	-0.2%

(1) 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).

(2) 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 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2010 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2010

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheets of the Alberta Risk Management Fund as at March 31, 2010 and 2009 and the statements of operations for the years then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at March 31

	($ thousands) 2010	2009
Assets		
Cash and cash equivalents (Note 3)	$ 37,609	$ 33,354
Receivable from Province of Alberta	260	73
Accrued recoveries (Note 4)	583	285
	$ 38,452	$ 33,712
Liabilities and net liabilities		
Liabilities		
Accounts payable (Note 5)	$ 377	$ 468
Liability for accrued claims (Note 6)	29,413	30,239
	29,790	30,707
Net assets	8,662	3,005
	$ 38,452	$ 33,712

The accompanying notes are part of these financial statements.

Statements of Operations

Years ended March 31

	2010		2009
	Budget	Actual	Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 12,055	$ 13,012	$ 11,885
Other entities	1,577	620	575
Subrogation and salvage	300	285	473
Interest	825	658	1,069
	14,757	14,575	14,002
Expenses			
Insurance claims	10,899	4,199	5,322
Insurance premiums to insurers	2,322	2,500	2,272
Administration	1,662	1,445	1,380
Other services	656	774	636
	15,539	8,918	9,610
Net revenue	$ (782)	5,657	4,392
Net assets (liabilities) at beginning of year		3,005	(1,387)
Net assets at end of year		$ 8,662	$ 3,005

($ thousands)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2010

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 generally accepted accounting principles. 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 $29.4 million (2009: $30.2 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 $40.0 million as at March 31, 2010, or $10.6 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)).

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, 2010, securities held by the Fund have time-weighted return of 1.00% per annum (2009: 3.0% 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)	
	2010	**2009**
Payable to Department of Finance and Enterprise	$ 376	$ 376
Other	1	92
	$ 377	$ 468

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

	($ thousands)	
	2010	**2009**
Outstanding claims case reserves (a)	$ 16,668	$ 14,536
Incurred but not reported losses (b)	12,745	15,703
	$ 29,413	$ 30,239

a) OUTSTANDING CLAIMS CASE RESERVES

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

Note 6 (continued)

b) INCURRED BUT NOT REPORTED (IBNR) LOSSES

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but not yet reported. In addition to a provision for claims that have occurred but are not yet reported, the amount includes a provision for development of outstanding case reserves, a provision for reopened claims, and a provision for claims that have been reported but 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, 2010 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:

	2010	2009
Trend rate		
General liability	5%	5%
Automobile liability	5%	5%
Property	0%	5%
Auto physical damage	11%	11%
Crime	3%	3%
Loss development factor		
Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada		
Selected loss rate		
General liability		
Loss per person (Alberta population)	$ 1.15	$ 1.15
Automobile liability		
Loss per vehicle	$ 105	$ 110
Property		
Loss per $million property values	$ 265	$ 160
Auto physical damage		
Loss per vehicle	$ 190	$ 190
Crime		
Loss per class A and B employee	$ 45	$ 45

Note 6 (continued)

b) INCURRED BUT NOT REPORTED (IBNR) LOSES (continued)

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.

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2010:

Sensitivity Tests	Increase in Net Liabilities *($ million)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%	$ 6.0
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 20%, depending on coverage type	6.0
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors	10.6

NOTE 7 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2010 are as follows:

	($ thousands)
2010-11	$ 216
2011-12	159
2012-13	48
	$ 423

NOTE 8 CONTINGENT LIABILITES

At March 31, 2010, 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, 2010

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheets of the Provincial Judges and Masters in Chambers Reserve Fund Reserve as at March 31, 2010 and 2009 and the statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at March 31

	($ thousands) 2010	2009
Assets		
Investments (Note 3)	$ 70,071	$ 54,639
Receivable from the Province of Alberta	164	351
	70,235	54,990
Liabilities		
Liability for investment purchases	-	275
	70,235	54,715
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 6)	70,235	54,715
Net Assets	$ -	$ -

Statements of Changes in Net Assets

Years ended March 31

	($ thousands) 2010	2009
Net investment income (loss) (Note 7)		
Investment income (loss)	$ 11,306	$ (11,583)
Investment expenses	(138)	(121)
	11,168	(11,704)
Contributions	4,352	4,405
(Increase) decrease in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(15,520)	7,299
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, 2010
(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the Provincial Judges and Masters in Chambers Reserve Fund Directive *(Treasury Board Directive 03-01)*

The Reserve Fund is established to collect contributions from the Province of Alberta and to invest the funds, which are reserved to meet future benefit payments of the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan). The Unregistered Plan is established to provide additional pension benefits to Provincial Judges and Masters in Chambers whose pensionable earnings are in excess of the *maximum benefit accrual limit* as set out in the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian 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, 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 new information is received.

The methods used to determine fair value of investments held either by the Reserve 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 income 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 (continued)

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.

The fair values of receivable from the Province of Alberta and liability for investment purchases are estimated to approximate their book values.

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 5) 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) 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) LIABILITIES

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

As at March 31, 2010, current service contributions rates are 34.61% 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.

Note 2 (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 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)

	2010		2009	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Deposits and short-term securities (a)	$ 6,231	8.9	$ 4,024	7.4
Bonds and mortgages (b)	24,587	35.1	19,645	35.9
	30,818	44.0	23,669	43.3
Equities and alternative investments				
Public equities				
Canadian equities (c)	10,832	15.5	8,886	16.3
Global developed equities (d)	24,766	35.3	17,728	32.4
Emerging markets equities (e)	172	0.3	202	0.4
Inflation sensitive				
Private real estate (f)	1,920	2.7	2,969	5.4
Private infrastructure investments (g)	1,151	1.6	1,185	2.2
Inflation sensitive real return bonds (h)	412	0.6	-	-
	39,253	56.0	30,970	56.7
Total investments	70,071	100.0	$ 54,639	100.0

Note 3 (continued)

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 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 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 include primarily interest bearing securities which have a maximum term to maturity of less than three years. At March 31, 2010, deposits and short-term securities had a time-weighted return of 1.0% per annum (2009: 3.0% 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, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 5%); 1 to 5 years: 33% (2009: 36%); 5 to 10 years: 36% (2009: 27%); 10 to 20 years: 13% (2009: 15%); and over 20 years: 15% (2009: 17%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $1,645).

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. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $3,300 (2009: $5,750).

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. 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. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $8,775 (2009: $10,643).

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 private 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.

g) Private 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).

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

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term policy asset mix benchmark and range for the following investments:

	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 developed	32	22	42
Inflation sensitive	**6**	**0**	**10**
Private real estate	4	0	6
Private infrastructure investments	2	0	4

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Reserve Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Note 5 (continued)

Swap option contracts include the right but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Reserve Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 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)]
Credit default swap contracts	29	39	32	$ 17,760	$ (139)	$ 28,830	$ (456)
Equity index swap contracts	99	1	-	13,064	342	13,146	46
Forward foreign exchange contracts	100	-	-	10,488	76	3,080	(58)
Futures contracts	100	-	-	9,257	620	4,978	765
Interest rate swap contracts	29	57	14	3,607	(105)	5,284	(261)
Cross-currency interest rate swap	27	28	45	2,496	197	4,066	(161)
Swap option contracts	100	-	-	2,037	(9)	-	-
Bond index swap contracts	-	-	-	-	-	883	7
				$ 58,709	$ 982	$ 60,267	$ (118)

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

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 Reserve Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 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, 2010.

As at March 31, 2010 the Unregistered Plan reported an actuarial deficiency of $1.5 million (2009: deficiency of $8.2 million), taking into account the amounts owing from the Reserve Fund.

NOTE 7 NET INVESTMENT INCOME (LOSS)

The following is a summary of the Reserve Fund's proportionate share of net investment income (loss) by type of investment.

($ thousands)

	2010			2009		
	Gross income (loss)	Expenses	Net income (loss)	Gross income (loss)	Expenses	Net income (loss)
Interest bearing securities	$ 2,477	$ 21	$ 2,456	$ (689)	$ 14	$ (703)
Canadian public equities	3,496	16	3,480	(3,516)	8	(3,524)
Foreign public equities	5,422	73	5,349	(7,541)	78	(7,619)
Private real estate	(148)	8	(156)	144	10	134
Inflation sensitive real return bonds	14	-	14	-	-	-
Private infrastructure investments	45	12	33	19	11	8
Plan investment expenses	-	8	(8)	-	-	-
	$ 11,306	$ 138	$ 11,168	$ (11,583)	$ 121	$ (11,704)

The following is a summary of the investment performance results attained by the Fund.

	2010	2009	Return 4 years
Time-weighted rates of return*			
Actual Gain (loss)	**18.9%**	**(16.8%)**	**1.4%**
Benchmark gain (loss)**	15.8%	(12.8%)	2.3%
Value added (lost) by investment manager	3.1%	(4.0%)	(0.9%)

* 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)

**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 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 9 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, 2010

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheets of the Supplementary Retirement Plan Reserve Fund as at March 31, 2010 and 2009 and the statements of changes in net assets for the years then ended. These financial statements are the responsibility of the management of the Fund. 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 financial statements present fairly, in all material respects, the financial position of the Fund as at March 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

Edmonton, Alberta
June 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at March 31

	($ thousands) 2010	2009
Assets		
Investments (Note 3)	$ 35,745	$ 25,792
Receivable from participating employers	129	232
Receivable from sale of investments	-	150
	35,874	26,174
Liabilities		
Liability for investment purchases	(75)	(375)
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(35,799)	(25,799)
Net Assets	$ -	$ -

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

Statements of Changes in Net Assets

Years ended March 31

	($ thousands) 2010	2009
Net Investment income (loss) (Note 6)		
Net investment income (loss)	$ 6,520	$ (6,985)
Investment expenses	(95)	(95)
	6,425	(7,080)
Contributions	3,575	3,431
(Increase) decrease in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(10,000)	3,649
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	$ -	$ -

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

Notes to the Financial Statements

March 31, 2010
(*all dollar values in thousands, unless otherwise stated*)

NOTE 1 SUMMARY DESCRIPTION OF THE RESERVE FUND

The Supplementary Retirement Plan Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and Treasury Board Directive 05/99.

The Reserve Fund is established to collect contributions from participating employers and to invest the funds, which are reserved to meet future benefit payments of the Supplementary Retirement Plan for Public Service Managers (SRP). The SRP is established effective July 1, 1999 to provide additional pension benefits to eligible public service managers whose pensionable earnings are in excess of the *maximum pensionable salary limit* under the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian 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 including real estate, timberland, private equity and private income, 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 new information is received.

The following methods used to determine fair value of investments held either by the Reserve Fund or by pooled investment funds are explained below:

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 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.

Note 2 (continued)

iv) The fair value of private equity and income 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.

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

The fair values of receivable from participating employers, receivable from the sale of investments and liability for investment purchases are estimated to approximate their book values.

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 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, 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.

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) 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, 2010 was 11.4% (2009: 11.4%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit.*

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

Note 2 (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 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)			
	2010		2009	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Deposits and short-term securities (a)	$ 437	1.2	$ 500	1.9
Bonds and mortgages (b)	7,171	20.1	4,630	18.0
	7,608	21.3	5,130	19.9
Equities and alternative investments				
Public equities				
Canadian public equities (c)	7,613	21.3	5,770	22.4
Global developed public equities (d)	17,438	48.8	11,384	44.1
Emerging markets equities (e)	116	0.3	125	0.5
Foreign private equities (f)	263	0.7	209	0.8
Inflation sensitive				
Private real estate (g)	1,699	4.8	2,188	8.5
Private infrastructure investments (h)	816	2.3	791	3.1
Timberland (i)	192	0.5	195	0.7
	28,137	78.7	20,662	80.1
Total investments	35,745	100.0	$ 25,792	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 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 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).

Note 3 (continued)

a) Deposits and short-term securities include primarily interest bearing securities which have a maximum term to maturity of less than three years. At March 31, 2010, deposits and short-term securities had a time-weighted return of 1.0% per annum (2009: 3.0% 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, debt related derivatives and loans. At March 31, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 5%); 1 to 5 years: 33% (2009: 36%); 5 to 10 years: 36% (2009: 27%); 10 to 20 years: 13% (2009: 15%); and over 20 years: 15% (2009: 17%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $600).

c) The Reserve 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. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $2,335 (2009: $3,749).

d) The Reserve 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. 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. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $5,922 (2009: $7,022).

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) 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 private 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) Private 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) Timberland investments are located primarily in Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term policy asset mix benchmark and range for the following investments:

	Policy	%	
	Benchmark	**Minimum**	**Maximum**
Interest bearing securities	**36.5**	**33.0**	**45.0**
Deposits and short-term securities	0.5	0.0	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	0	3
Inflation sensitive			
Private real estate	5	2.5	7.5
Private infrastructure investments	4	0	5
Timberland	2	0	3
Inflation sensitive real return bonds	4.5	3.5	5.5

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Reserve Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Swap option contracts include the right but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Reserve Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2010

($ thousands)

	Maturity			2010		2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value [(a)]	Notional Amount	Net Fair Value [(a)]
	%						
Equity index swap contracts	99	1	-	$ 8,997	$ 239	$ 8,671	$ 31
Forward foreign exchange contracts	100	-	-	7,274	47	3,055	(47)
Futures contracts	100	-	-	6,526	437	3,172	493
Credit default swap contracts	29	39	32	3,985	(31)	5,385	(132)
Interest rate swap contracts	33	55	12	2,196	(82)	2,857	(168)
Swap option contracts	100	-	-	1,279	(8)	-	-
Cross-currency interest rate swaps	36	28	36	1,134	53	2,152	(73)
Bond index swap contracts	-	-	-	-	-	154	1
				$ 31,391	$ 655	$ 25,446	$ 105

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

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 Reserve Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 INVESTMENT INCOME (LOSS)

The following is a summary of the Reserve Fund's net investment income (loss) by type of investments:

($ thousands)

	2010			2009		
	Gross income (loss)	Expenses	Net income (loss)	Gross income (loss)	Expenses	Net income (loss)
Interest bearing securities	$ 656	$ 9	$ 647	$ (184)	$ 11	$ (195)
Canadian public equities	2,372	10	2,362	(2,197)	5	(2,202)
Foreign public equities	3,586	47	3,539	(4,719)	47	(4,766)
Private real estate	(121)	7	(128)	105	7	98
Private equities	11	11	0	12	9	3
Timberland	(14)	2	(16)	(14)	2	(16)
Private infrastructure investments	30	9	21	12	8	4
Plan investment expenses	-	-	-	-	6	(6)
	$ 6,520	$ 95	$ 6,425	$ (6,985)	$ 95	$ (7,080)

The following is a summary of the investment performance results attained by the Reserve Fund.

	2010	2009	Return 6 years
Time-weighted rates of return*			
Actual gain (loss)	**20.0%**	**(17.7%)**	**4.3%**
Benchmark gain (loss)**	17.0%	(13.3%)	4.7%
Value added (lost) by investment manager	3.0%	(4.4%)	(0.4%)

* 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).

**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 7 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2008 by Aon Consulting Inc. and was then extrapolated to December 31, 2009.

As at December 31, 2009 the SRP reported an actuarial deficit of $39.5 million (2008: deficit $7.1 million), taking into account the amounts receivable from Reserve Fund.

NOTE 8 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

Provincial Agencies and
Non-commercial Crown-
controlled Corporations

ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

Year Ended December 31, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholders of the Alberta Capital Finance Authority

I have audited the balance sheets of the Alberta Capital Finance Authority as at December 31, 2009 and 2008 and the statements of net income, comprehensive income and retained earnings and cash flow for the years ended then. These financial statements are the responsibility of the Authority's 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 financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2009 and 2008 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

Edmonton, Alberta
March 10, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at December 31

	($ thousands) 2009	2008
Assets:		
Cash (Note 4)	$ 13,438	$ 6,328
Loans to local authorities (Note 5)	8,347,277	7,075,010
Derivatives in favourable position (Note7)	248,935	509,898
	$ 8,609,650	$ 7,591,236
Liabilities and Shareholders' Equity:		
Liabilities:		
Accounts payable	$ 672	$ 870
Debt (Note 6)	8,177,483	6,924,812
Derivatives in unfavourable position (Note 7)	260,412	708,692
	8,438,567	7,634,374
Commitments (Note 12)		
Shareholders' equity		
Share capital (Note 9)		
Issued and fully paid:		
6,345 shares (2008 - 6,343 shares)	64	64
Retained earnings (deficit)	171,019	(43,202)
	171,083	(43,138)
	$ 8,609,650	$ 7,591,236

The accompanying notes are part of these financial statements

L.R. Gordon
Chair of the Board

T. S. Stroich, FCA
President

Statements of Net Income, Comprehensive Income and Retained Earnings

For the Years Ended December 31

	($ thousands)		
	Budget (Note 13)	**2009**	**2008**
Interest Income:			
Loans	$ 292,911	$ 189,699	$ 293,823
Amortization of loan discounts	567	-	-
Investments (Note 4)	700	660	1,807
	294,178	190,359	295,630
Interest Expense:			
Long-term debt	259,125	150,088	263,472
Short-term debt	-	15,454	13,016
Commission fees	19,950	1,405	-
Amortization of net discounts on debt	22,078	-	-
	301,153	166,947	276,488
Net interest income	(6,975)	23,412	19,142
Other Income:			
Loan prepayment fees	-	224	76
Net interest income (loss) and other income	(6,975)	23,636	19,218
Non-Interest Expense:			
Administration and office expenses (Note 10)	789	845	822
Income before unrealized gains (losses)	(7,764)	22,791	18,396
Unrealized (loss) gain on loans	-	(55,031)	113,101
Unrealized gain (loss) on debt	-	39,495	(78,437)
Unrealized gain (loss) on derivatives	-	206,966	(178,088)
Total unrealized gain (loss)	-	191,430	(143,424)
Net income (loss) and comprehensive income (loss)	(7,764)	214,221	(125,028)
Retained earnings (deficit), beginning of year	36,823	(43,202)	81,826
Retained earnings (deficit), end of year	$ 29,059	$ 171,019	$ (43,202)

The accompanying notes are part of the financial statements.

Statements of Cash Flow

For the Years Ended December 31

	($ thousands) 2009	2008
Operating Activities:		
Interest received	$ 185,311	$ 287,797
Investment interest	660	1,807
Loan prepayment fees	224	76
Commission fees	(1,405)	-
Administration and office expenses	(928)	(684)
Interest paid	(146,991)	(270,250)
Cash flows from operating activities	36,871	18,746
Investing Activities:		
Loan repayments	640,379	432,514
New loans issued	(1,968,871)	(1,384,807)
Cash flows used in investing activities	(1,328,492)	(952,293)
Financing Activities:		
Debt issues	6,895,208	2,624,881
Debt redemptions	(5,596,477)	(1,701,278)
Cash flows from financing activities	1,298,731	923,603
Net increase (decrease) in cash	7,110	(9,944)
Cash, beginning of year	6,328	16,272
Cash, end of year	$ 13,438	$ 6,328

The accompanying notes are part of the financial statements.

Notes to the Financial Statements

December 31, 2009, with comparative figures for 2008
(all amounts presented in thousands of dollars, except share amounts)

NOTE 1 AUTHORITY

The Alberta Capital Finance Authority (ACFA) operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders.

NOTE 2 ACCOUNTING POLICY CHANGES

a) CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Effective January 1, 2009, ACFA adopted Emerging Issues Committee, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* (EIC-173). This requires that ACFA's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 was adopted retrospectively without restatement of prior years and did not have a material impact on the financial statements.

ACFA also adopted the changes made by the Canadian Institute of Chartered Accountants (CICA) to Section 3862, Financial instruments - disclosures whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have 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 required disclosures are provided in Note 11(d).

Impairment of Financial Assets
On August 20, 2009, the CICA amended Handbook Section 3855, *Financial Instruments - Recognition and Measurement*. The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008 with retroactive application to the beginning of the fiscal year. ACFA adopted the amendments effective January 1, 2009.

The definition of the "loans and receivables" financial asset category, which can be measured at cost or amortized cost calculated using the effective interest rate method, has been modified. As a result, debt securities that are not quoted in an active market can be classified as loans and receivables, and impairment is measured using the incurred credit loss model of Section 3025, *Impaired Loans*. Loans and receivables that an entity intends to sell immediately or in the near term must be classified as held-for-trading, and loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale.

The adoption of the amendments to Section 3855 had no impact on the financial statements.

Note 2 (continued)

b) 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. The impact of the transition has not yet been determined.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTISES

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 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 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 points premium is based on historical averages and is not adjusted to reflect short-term changes in market conditions.

Note 3 (continued)

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.

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.

NOTE 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, 2009, securities held by the Fund have a time-weighted return of 1.39% per annum (December 31, 2008 - 3.53% per annum).

NOTE 5 LOANS TO LOCAL AUTHORITIES

	($ thousands) 2009	2008
Fair Value	$ 8,347,277	$ 7,075,010
Contractual principal	7,918,673	6,590,181
Unamortized discount	-	(567)
Accrued interest receivable	94,738	95,932
	$ 8,013,411	$ 6,685,546

The fair value of loans is calculated using future interest and principal cash flows for all loans using a discount curve to determine the present value (Note 2 c(i)). The estimated sensitivity of the fair value of loans to a change in the discount factor of one (1) basis point is $5,611 (2008 - $4,547).

Note 5 (continued)

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, 2009 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.

NOTE 6 DEBT (Schedule 1)

	($ thousands) 2009	2008
Fair Value	$ 8,177,483	$ 6,924,812
Contractual principal	7,899,846	6,610,928
Unamortized discount	(2,129)	(11,823)
Accrued interest payable	50,045	56,608
	$ 7,947,762	$ 6,655,713

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. The estimated sensitivity of he fair value of debt to a change of one (1) basis point the rate used to calculate fair value is $3,644 (2008 - $3,489).

The debt of ACFA is fully guaranteed by the Province of Alberta.

Debt with a fair value of $177,879 (contractual principal - $165,000) (2008: fair value - $319,967; contractual principal - $309,259) 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
2010	$1,863,000
2011	997,200
2012	1,050,000
2013	300,000
2014	656,500
	$4,863,700

NOTE 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 $165,000 (2008 - $309,259) 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	Within **1 Year**	1 to 2 **Years**	3 to 5 **Years**	6 to 10 **Years**	Over 10 **Years**	**Total**
Maturities						
Interest rate swaps - 2009	$ 80,435	$ 79,627	$ 513,461	$ 2,134,207	$ 6,022,923	$ 8,830,653
Interest rate swaps - 2008	$ 6,478	$ 38,640	$ 284,786	$ 1,997,962	$ 4,874,361	$ 7,202,227

The cost of replacing the remaining cash flows of the interest rate swaps at the prevailing prices and market rates are summarized as follows:

As at December 31

($ thousands)

			Current Replacement Cost	
	Notional Outstanding	**Net Fair Value**	**Contracts in Favourable Position**	**Contracts in Unfavourable Position**
Interest rate swaps - 2009	$ 8,830,653	$ (11,477)	$ 248,935	$ (260,412)
Interest rate swaps - 2008	$ 7,202,227	$ (198,794)	$ 509,898	$ (708,692)

The contractual amount of accrued interest receivable and payable on interest rate swaps as at December 31 are as follows:

($ thousands)

	2009	**2008**
Accrued interest receivable	$16,078	$10,499
Accrued interest payable	$37,710	$12,481

Note 7 (continued)

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. ACFA has determined that the current credit worthiness of ACFA's counterparties has no material impact on the determination of the fair value of its derivatives. The estimated sensitivity of the fair value of derivatives in a favourable or unfavourable position to a change in the rate of one (1) basis point is $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 doing business only with ACFA. 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, 2009 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 off set, derivative instruments in a favourable position of $203,112 at December 31, 2009 are subject to master netting arrangements which reduces ACFA's credit exposure by an equivalent amount.

NOTE 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, no gains or losses will be realized over the life of the instrument. As such, ACFA's retained earning of $171,019 at December 31, 2009 (2008 – ($43,202)), includes retained earnings of $56,742 (2008 - $33,265) determined before the effect of the accumulated unrealized fair value adjustments, and retained earnings of $114,277 (2008 – ($76,467)), related to accumulated unrealized fair value adjustments.

NOTE 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:

Class	Restricted to		Number of Shares: Authorized	Number of Shares: Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta		4,500	4,500	$ 45,000
B	Municipal authorities, airport and health authorities		1,000	883	8,830
C	Cities		750	585	5,850
D	Towns and villages		750	294	2,940
E	Educational authorities		500	83	830
		2009	7,500	6,345	$ 63,450
		2008	7,500	6,343	$ 63,450

During the year, three Class B shares were issued and one Class D share was cancelled.

NOTE 10 DIRECTORS' AND AUDIT COMMITTEE FEES AND RELATED PARTY TRANSACTIONS

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

	2009 Number of Individuals	2009 Total	2008 Number of Individuals	2008 Total
	($ thousands)			
Board/Audit Committee Chairs	2	$ 11	2	$ 9
Board/Audit Committee members	8	$ 26	8	$ 23

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, 2009 is principal of $10,511 (2008 - $17,513), upon which, interest of $560 (2008 - $831) has been recorded in interest income from loans.

ACFA has no employees. Included in administration and office expenses of $845 (2008 - $822) is the amount of $488 (2008 - $440) that was paid to the controlling shareholder, the Province of Alberta for services at prices measured at the exchange amount, which approximate market.

NOTE 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, and swaps corresponding debt from fixed rate to floating and uses 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.

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	($ thousands)						
Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2009 Total	2008 Total
Assets							
Cash	$ 13,438	$ -	$ -	$ -	$ -	$ 13,438	$ 6,328
Accrued Interest Receivable	110,839	-	-	-	-	110,839	106,451
Loans to Local Authorities	499,274	490,769	1,658,378	1,987,146	3,283,106	7,918,673	6,590,181
Effective Rate	5.2%	5.1%	5.1%	5.1%	5.3%	5.2%	5.4%
Total	623,551	490,769	1,658,378	1,987,146	3,283,106	8,042,950	6,702,960
Liabilities							
Accrued Interest Payable	$ 87,755	$ -	$ -	$ -	$ -	$ 87,755	$ 69,089
Debt	3,667,200	290,000	906,500	1,600,000	1,436,146	7,899,846	6,610,928
Effective Rate	4.3%	5.1%	5.1%	5.3%	5.5%	5.1%	5.3%
Total	3,754,955	290,000	906,500	1,600,000	1,436,146	7,987,601	$ 6,680,017
Cumulative Gap 2009	$ (3,131,404)	$ 200,769	$ 751,878	$ 387,146	$ 1,846,960	$ 55,349	$ 22,943
Cumulative Gap 2008	$ (1,663,256)	$ 244,570	$ 206,957	$ 90,659	$ 1,144,013	$ 22,943	$ 13,259

(i) Includes $704,200, $550,000 of floating rate notes with interest rates of Canadian Deposit Offered Rate (CDOR) +2 basis points and CDOR + 32 and 39 points respectively.

Note 11 (continued)

Interest rate swaps of pay fixed/receive floating and receive fixed/pay floating in the notional amounts of $6,115,703 and $2,714,950 respectively (2008 - $4,500,448 and $2,701,779 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, 2009 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, 2009 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 a 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:

			2009			2008
Assets	6,317,688	X .5% =	$ 31,588	4,771,678	X .5% =	$ 23,858
Liabilities	6,055,906	X .5% =	$ 30,279	4,775,261	X .5% =	$ 23,876
Net interest income (loss)			$ 1,309			$ (18)

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. When required, ACFA raises funds under a five-year Promissory Note Program, by direct borrowing in the Canadian or European market or by renewing borrowing from the Canada Pension Plan Investment Board. The maturities of ACFA's contractual cash flows from financial liabilities at December 31, 2009 are as follows:

Financial Liabilities		**2010**	**2011**	**2012**	**2013 and beyond**
Accounts payable		$ 672	$ -	$ -	$ -
Debt - contractual repayments of principal	(1)	1,738,000	954,200	1,050,000	4,157,646
Debt - contractual payments of interest		259,571	208,404	195,035	1,296,002
Derivatives in unfavourable position - pay fixed, receive floating interest rate swaps		230,313	220,823	215,882	1,981,319
Commitments		27,078	54	54	27
Total		$ 2,255,634	$ 1,383,481	$ 1,460,971	$ 7,434,994

Note 11 (continued)

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		2010	2011	2012	2013 and beyond
Loans to local authorities - contractual collection of principal	(2)	$ 499,274	$ 490,768	$ 547,618	$ 6,381,013
Loans to local authorities - contractual collection of interest	(2)	396,319	367,316	340,948	2,684,704
Derivatives in favourable position - receive fixed, pay floating interest rate swaps	(2)	103,026	102,985	101,174	1,055,004
Total		$ 998,619	$ 961,069	$ 989,740	$ 10,120,721

(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 assume no credit default on behalf of the counterparty nor 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.

Note 11 (continued)

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
Financial assets				
Cash	$ 13,438	$ -	$ -	$ 13,438
Loans to local authorities	-	8,347,277	-	$ 8,347,277
Derivatives in favourable position	-	248,935	-	$ 248,935
Total financial assets	$ 13,438	$ 8,596,212	$ -	$ 8,609,650
Financial liabilities				
Debt	$ -	$ 8,177,483	$ -	$ 8,177,483
Derivatives in unfavourable position	-	260,412	-	$ 260,412
Total financial liabilities	$ -	$ 8,437,895	$ -	$ 8,437,895

During this year, there has been no significant transfer of amounts between Level 1 and Level 2.

NOTE 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:

2010	$53
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.

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:

	2009	2008
Loan commitments as at December 31	$ 27,025	$ 13,796

NOTE 13 BUDGET

The 2009 budget was approved by the Board of Directors on November 27, 2008 and is unaudited. For purposes of budget preparation, financial instruments are reflected at amortized cost and fair values are not included.

SCHEDULE TO THE FINANCIAL STATEMENT

SCHEDULE OF DEBT **Schedule 1**

As at December 31, 2009

(thousands of dollars)

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	$261,518	
Jun 01, 2022		6.0600	100,000	114,852	
Apr 05, 2023		5.8900	50,000	57,006	
Dec 01, 2023		5.5000	150,000	163,389	
Dec 03, 2024		5.1800	78,000	81,846	
Nov 03, 2026		4.4900	200,000	194,377	
Nov 03, 2031		4.5000	125,396	120,267	
Nov 02, 2032		4.8300	190,383	191,075	
Total			1,116,146	1,184,330	
Public					
Jan 05, 2010		0.2310	100,000	99,996	
Jan 06, 2010		0.2300	100,000	99,995	
Jan 08, 2010		0.2300	125,000	124,993	
Jan 12, 2010		0.2399	80,000	79,993	
Jan 20, 2010		0.3295	50,000	49,992	
Jan 28, 2010		1.1660	60,000	59,989	
Feb 05, 2010		0.2410	100,000	99,972	
Feb 09, 2010		0.3790	75,000	74,977	
Feb 11, 2010		0.2400	100,000	99,968	
Feb 16, 2010		0.2400	50,000	49,982	
Feb 18, 2010		0.2430	78,000	77,970	
Feb 24, 2010		0.3190	80,000	79,966	
Mar 09, 2010		0.6460	50,000	49,974	
Apr 21, 2010		0.5371	100,000	99,904	
Apr 26, 2010		0.2940	95,000	94,901	
May 05, 2010		0.3390	50,000	49,942	
May 25, 2010		0.3190	90,000	89,864	
Jun 07, 2010		0.6950	50,000	49,912	
Jun 07, 2010		0.6980	30,000	29,948	
Aug 05, 2010		0.7050	75,000	74,773	
Mar 01, 2010		4.5500	50,000	51,120	
Aug 20, 2010		4.5000	150,000	156,407	
Sep 01, 2011		5.7000	200,000	218,592	
Dec 08, 2011		0.4643	704,200	700,523	(iii)
Dec 15, 2011		4.4350	50,000	52,984	
Jun 01, 2012		5.8500	500,000	549,942	
Jun 15, 2012		0.7643	550,000	551,387	(iii)

SCHEDULE OF DEBT (CONTINUED) **Schedule 1**

Public								
Dec	02,	2013			5.0000	300,000	327,016	
Jul	02,	2014			3.0940	106,500	107,405	
Jul	02,	2014			0.8343	550,000	554,676	(iii)
Nov	19,	2014	Nov 19,	2011	2.0000	17,000	16,818	(i)
Jun	01,	2015			4.9000	200,000	217,341	
Sep	15,	2015	Sep 15,	2011	2.2500	13,000	12,786	(i)
Jun	15,	2016			4.3500	600,000	629,990	
Oct	28,	2016	Oct 28,	2010	2.7500	10,000	9,821	(i)
Jun	15,	2017			4.6500	700,000	741,503	
Jun	01,	2018			5.1500	100,000	108,764	
Oct	21,	2019	Oct 21,	2010	2.8000	12,000	11,284	(i)
Oct	28,	2019	Oct 28,	2010	2.8500	10,000	9,395	(i)
Dec	22,	2019	Dec 22,	2011	3.0500	10,000	9,417	(i)
Apr	18,	2022	Apr 18,	2010	5.0000	12,000	13,240	(ii)
Dec	01,	2023			5.1000	20,000	20,966	
Jun	15,	2025	Jun 15,	2010	5.1500	20,000	24,116	(ii)
Jul	06,	2025	Jan 06,	2010	5.0200	16,000	18,874	(ii)
Dec	15,	2025			4.4500	300,000	289,647	
Oct	11,	2030	Oct 11,	2010	5.1600	15,000	16,900	(ii)
Dec	15,	2030	Jun 15,	2010	5.1600	10,000	11,467	(ii)
Dec	15,	2030	Dec 15,	2010	5.4100	10,000	11,896	(ii)
Dec	15,	2030	Jun 15,	2010	5.4000	10,000	11,865	(ii)
Total						6,783,700	6,993,153	
Total debt 2009						$7,899,846	$8,177,483	
Total debt 2008						$6,610,928	$6,924,812	

(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 plus predetermined spreads with principal paid on terminations.

ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2009 and December 31, 2008

AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the statements of financial position of Alberta Insurance Council as at December 31, 2009 and December 31, 2008 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
April 15, 2010

Pricewaterhouse Coopers LLP
Chartered Accountants

Statements of Financial Position

As at December 31, 2009 and December 31, 2008

	$ 2009	2008
ASSETS		
Current assets		
Cash (Note 3)	$ 5,997,290	$ 5,875,588
Accounts receivable	33,888	42,860
Prepaid expenses	60,148	82,080
	6,091,326	6,000,528
Capital assets (Note 4)	634,138	736,105
	$ 6,725,464	$ 6,736,633
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 220,393	$ 321,973
Current portion of deferred tenant inducement (Note 5)	34,890	34,890
Deferred license and assessment fee revenue	1,456,505	1,447,974
	1,711,788	1,804,837
Deferred tenant inducement (Note 5)	86,858	121,748
	1,798,646	1,926,585
Commitments and contingent liability (Note 8)		
NET ASSETS		
Net assets		
Invested in property and equipment internally resticted)	634,138	736,105
Unrestricted	4,292,680	4,073,943
	4,926,818	4,810,048
	$ 6,725,464	$ 6,736,633

Approved by the Audit Committee

Art Bonertz

Mel Niebrugge

Statements of Changes in Net Assets

For the years ended December 31, 2009 and December 31, 2008

$

	Invested in property and equipment	Unrestricted	Total 2009	Total 2008
Balance - Beginning of year	736,105	4,073,943	4,810,048	4,249,445
Excess of revenue over expenditures	(212,689)	329,459	116,770	560,603
Investment in property and equipment	110,722	(110,722)	-	-
Balance - End of year	634,138	4,292,680	4,926,818	4,810,048

Statements of Operations

For the years ended December 31, 2009 and December 31, 2008

$

	Budget 2009 (Unaudited)	2009	2008
Revenue			
License, assessment, examination and continuing education fees	$ 4,375,000	$ 4,440,672	$ 4,392,918
Interest and other	150,000	75,696	195,886
	4,525,000	4,516,368	4,588,804
Expenditures			
Salaries and benefits (Schedule 1)	2,550,000	2,499,122	2,201,515
Occupancy and premises	495,000	430,821	443,780
Councils, Boards and Committees (Note 6)	370,000	355,217	374,356
Communications (Note 10)	247,000	253,972	252,342
Professional fees	180,000	234,682	172,221
Office and administration	205,000	219,068	150,928
Amortization	225,000	212,689	224,521
Software and computer	100,000	98,278	81,355
Travel	135,000	95,749	127,183
Total expenditures for the year	4,507,000	4,399,598	4,028,201
Excess of revenue over expenditures	$ 18,000	$ 116,770	$ 560,603

Statements of Cash Flows

For the years ended December 31, 2009 and December 31, 2008

	$ 2009	2008
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures	$ 116,770	$ 560,603
Items not affecting cash		
Amortization of capital assets	212,689	224,521
Amortization of deferred tenant inducement	(34,890)	(34,890)
Loss on disposal of capital assets	-	360
	294,569	750,594
Net changes in non-cash working capital items		
Decrease in accounts receivable	8,972	59,006
Decrease (increase) in prepaid expenses	21,932	(21,856)
(Decrease) increase in accounts payable and accrued liabilities	(101,580)	51,414
Increase in deferred license and assesment fee revenue	8,531	163,647
	232,424	1,002,805
Investing activities		
Purchase of capital assets	(110,722)	(160,864)
Proceeds on sales of capital assets	-	200
	(110,722)	(160,664)
Increase in cash	121,702	842,141
Cash - Beginning of year	5,875,588	5,033,447
Cash - End of year	$ 5,997,290	$ 5,875,588
Supplementary information		
Interest received	$ 84,489	$ 200,530

Notes to Financial Statements

December 31, 2009 and December 31, 2008

NOTE 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education ("CE") course approval fees are recognized upon course submission. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred license and assessment fee revenue.

Capital Assets and Amortization

Capital assets consisting of property, equipment and computer software is recorded at cost and is 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

Tenant inducement associated with leased premises is amortized on a straight-line basis over the term of the lease and recognized as a reduction of rent recorded in occupancy costs.

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.

Note 2 (continued)

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 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 has 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 CICA 3863 – *Financial Instruments – Presentation*, effective for financial years beginning on or after October 31, 2007.

Changes in accounting policies

a) Not-for-profit organizations

Effective January 1, 2009, the Council adopted the following amendments to existing guidelines which are relevant to not-for-profit organizations from the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook")

CICA 4400 – *Financial Statement Presentation by not-for-profit organizations*
CICA 4430 – *Capital Assets held by not-for-profit organizations*
CICA 4460 – *Disclosure of Related Party transactions by not-for-profit organizations*
CICA 4470 – *Disclosure of Allocated Expenses by not-for-profit organizations*
CICA 1540 – *Cash Flow Statements*
Emerging Issues Committee "EIC" 123 – Reporting Revenue Gross as a Principal Versus Net as an Agent

Adoption of these accounting standards did not have an impact on the Council's financial position or reported results

b) Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC-173 – *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which requires the Council to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and as required have been applied prospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of financial assets or liabilities.

c) Recent accounting pronouncements issued but not yet adopted

Effective January 1, 2010, the Council will be required to adopt the amendment to CICA 1506 – *Accounting Changes* which excludes from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. Adoption of this amendment to the standard is not expected to have a material impact on the Council's financial statements.

NOTE 3 CASH

Included in cash is an amount of $5,622,801 (2008: $5,422,009) 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.

NOTE 4 CAPITAL ASSETS

	$			
			2009	2008
	Cost	Accumulated amortization	Net	Net
Leasehold improvements	$ 614,669	$ 313,720	$ 300,949	$ 387,129
Furniture and office equipment	296,068	140,968	155,100	149,389
Computer equipment	213,612	167,610	46,002	59,188
Computer software	691,072	580,612	110,460	109,730
Telephone equipment	50,346	28,719	21,627	30,669
	$ 1,865,767	$ 1,231,629	$ 634,138	$ 736,105

NOTE 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 2007, a tenant inducement in the amount of $84,043 was received from the landlord with respect to the leasehold improvements completed by the Council in 2005 on their Edmonton office space. The tenant inducement was deferred and is being recognized as a reduction of rent during the five-year term of lease.

NOTE 6 COUNCILS, BOARDS AND COMMITTEES

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

	$	
	2009	2008
Councils and Council Committees	$ 272,691	$ 275,055
Appeal Boards	36,551	56,492
Accreditation Committee	45,975	42,809
	$ 355,217	$ 374,356

NOTE 7 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 asset 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.

NOTE 8 COMMITMENTS AND CONTINGENT LIABILITY

Commitments

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

	$
2010	211,884
2011	206,860
2012	151,594
2013	151,383
2014	125,625

Contingent Liability

The Council was previously involved in legal proceedings related to the termination of a former lease on their Calgary office space and $50,000 had been accrued for costs associated with this matter. Legal proceedings have been discontinued and accordingly, the accrued amount has been reversed and applied to reduce occupancy costs for the year.

NOTE 9 FINANCIAL INSTRUMENTS

The Council's financial instruments comprise 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 license and assessment fees, which are billed in advance. There are no unrecorded financial instruments.

NOTE 10 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 the year 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.

Schedule 1

Schedules of Salaries and Benefits

For the years ended December 31, 2009 and December 31, 2008

PER DIEM PAYMENTS OF COUNCIL MEMBERS

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

	2009 (c)		2008	
	#	$	#	$
Councils (a)				
Chairs - AIC (b)	1	33,893	1	34,531
Other - Chairs	9	43,160	7	73,675
Members	46	170,838	30	162,023
Total	56	$ 247,891	38	$ 270,229

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 and Enterprise pursuant to the Government Organization Act.

SALARIES AND BENEFITS

	$					$
	FTE's	Salary(c)	Benefits(d)	2009 Total	FTE's	2008 Total
	#				#	
Chief Executive Officer	1	$ 213,763	$ 30,815	$ 244,578	1	$ 237,635
Chief Operating Officer	1	190,060	48,084	238,144	1	220,209
Other staff (e)	19	1,727,438	288,962	2,016,400	19	1,743,671
Total	21	$2,131,261	$ 367,861	$2,499,122	21	$2,201,515

c) Salary includes regular base pay, bonuses and overtime.

d) Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, dental coverage, group life insurance, long and short-term disability plans and vacation pay. Accrued vacation pay was $44,805 (2008: $55,595).

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.

e) Average annual salary and benefits of other staff was $$82,382 (2008: $76,938).

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the years ended March 31, 2010 and 2009

AUDITOR'S REPORT

To the Shareholder of Alberta Investment Management Corporation

I have audited the balance sheets of the Alberta Investment Management Corporation as at March 31, 2010 and 2009 and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's 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 my audits 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at March 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.

Edmonton, Alberta
July 15, 2010

[Original signed by Merwan N. Saher, CA]
Auditor General

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at March 31

	($ thousands) 2010	2009
Assets		
Current Assets		
Cash (Note 4)	$ 26,427	$ 23,561
Accounts receivable	12,196	12,324
Prepaid expenses	1,729	1,253
	40,352	37,138
Capital assets (Note 5)	26,748	7,254
	$ 67,100	$ 44,392
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 21,788	$ 8,741
Accrued vacation and benefits	1,756	1,868
Advance from the Province of Alberta (Note 7)	28,249	28,249
	51,793	38,858
Long-term employee benefits (Note 8)	4,894	925
Deferred lease inducement (Note 16)	6,766	962
	63,453	40,745
Shareholder's Equity (Note 9)		
Contributed surplus	3,647	3,647
	3,647	3,647
	$ 67,100	$ 44,392

Commitments (Note 16)

The accompanying notes are part of these financial statements.

Approved by the Board:

A. Charles Baillie
Board Chair

Cathy Williams
Audit Committee Chair

Statements of Operations

For the years ended March 31

	2010 Budget (Note 17)	2010 Actual	2009 Actual
	($ thousands)		
Revenue			
External investment management fees (Note 10)	$ 176,181	$ 169,277	$ 174,059
Service revenue	69,279	59,406	39,771
Interest income	-	270	822
	245,460	228,953	214,652
Expenses			
External investment management fees (Note 10)	176,181	169,277	174,059
Salaries, wages and benefits	43,795	38,647	26,231
Contract and professional services	8,236	11,094	6,514
Administration	7,173	4,713	3,485
Amortization	3,426	1,285	1,559
Data services and subscriptions	2,477	1,637	1,175
Rent	2,822	2,233	1,083
Interest	1,350	67	546
	245,460	228,953	214,652
Net income	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statements of Cash Flows

For the years ended March 31

	($ thousands) 2010	2009
Operating activities		
Net income	$ -	$ -
Items not affecting cash		
Amortization	1,285	1,559
	1,285	1,559
Changes in operating accounts (Note 11)	16,556	(3,802)
	17,841	(2,243)
Investing activities		
Acquisition of capital assets	(20,779)	(2,279)
Financing activities		
Advance from the Province of Alberta	-	15,000
Deferred lease inducement	5,804	185
	5,804	15,185
Increase in cash for the year	2,866	10,663
Cash at beginning of year	23,561	12,898
Cash at end of year	$ 26,427	$ 23,561
Supplementary information		
Interest paid during the period	$ 67	$ 546

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the years ended March 31, 2010 and 2009 ($ thousands)

NOTE 1 AUTHORITY

Alberta Investment Management Corporation (the Corporation) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the *Act*, the Corporation is established as a Crown Corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from income and other 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 $70.7 billion, see Note 12.

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

The Canadian Accounting Standards Board confirmed that the changeover date for adoption of International Financial Reporting Standards (IFRS) for publicly accountable enterprises 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 has determined that adopting CICA Public Sector Accounting Standards will not have a significant 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.

c) 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. The supplemental plan is a defined benefit plan whose costs will be actuarially determined every three years. Actuarial gains and losses arising from the valuations are recognized in expenses as they arise.

Note 3 (continued)

The Corporation provides a retention incentive to employees through a long-term incentive plan (LTIP) and a restricted fund unit plan (RFU). The plans began January 1, 2009.

d) REVENUE RECOGNITION

All service revenues are reported on the accrual basis of accounting.

Service revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments. The service revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

The Corporation charges each government fund, pension plan and pooled fund with its respective share of the Corporation's operating costs. The charges are based on the total expenses incurred and are allocated based on assets under management and transaction volume.

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.

e) CAPITAL ASSETS

Capital assets are recorded at cost less accumulated amortization. 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	Term of the lease

f) 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 fair value which approximates carrying 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 fair value which approximates carrying value due to their short-term to maturity.

g) COMPARATIVE FIGURES

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

NOTE 4 CASH

	($ thousands) 2010	2009
Deposit in Consolidated Cash Investment Trust Fund	$ 25,933	$ 23,382
Cash in U.S. bank account	494	179
	$ 26,427	$ 23,561

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 of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2010, securities held by the Fund have a time-weighted return of 1.0% per annum (2009 – 3.0% per annum).

NOTE 5 CAPITAL ASSETS

($ thousands)

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 12,983	$ 9,165	$ 3,818	$ 3,023
Computer hardware and software under development	8,315	-	8,315	3,537
Leasehold Improvements	10,975	99	10,876	-
Leasehold Improvements under construction	-	-	-	694
Equipment	3,772	33	3,739	-
	$ 36,045	$ 9,297	$ 26,748	$ 7,254

Amortization expense charged for the year ended March 31, 2010 was $1,285 (2009 - $1,559).

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

($ thousands)

	2010	2009
Annual incentive plan[1]	$ 9,827	$ 2,331
Retiring allowance and employment agreement payout[2]	-	2,167
Other accounts payable and accrued liabilities	11,961	4,243
	$ 21,788	$ 8,741

1) Variable pay per the Corporation's Annual Incentive Plan is accrued based on goal attainment for the calendar year end and paid in the subsequent year.
2) In 2009, the Corporation's Chief Investment Officer announced his retirement on March 31, 2009 and was eligible for a retiring allowance of $1,207 and an employment agreement payout of $960.

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 calculated as:

($ thousands)

	2010	2009
Beginning of year	$ 28,249	$ 13,249
Advance increases during the year	-	15,000
	$ 28,249	$ 28,249

The advance is a revolving demand credit facility up to a maximum of $30 million. The advance is repayable within 6 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, 2010, the Corporation is in compliance with the terms of its revolving demand facility.

NOTE 8 LONG-TERM EMPLOYEE BENEFITS

Pension and Disability Plans

AIMCo 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 is equivalent to the annual contributions of $2,360 for the year ended March 31, 2010 (2009 - $2,189).

At December 31, 2009, the Management Employees Pension Plan reported a deficiency of $483,199 (2008 - $568,574) and the Public Service Pension Plan reported a deficiency of $1,729,196 (2008 - $1,187,538).

Other Long Term Employee Benefits

	($ thousands) 2010	2009
Long-term incentive plan(1)	$ 2,009	$ 278
Restricted fund unit incentive plan(2)	402	81
Unfunded net retirement obligation from SRP plan(3)	2,483	566
	$ 4,894	$ 925

1) The Corporation provides retention incentives to employees through an LTIP and RFU plan. The LTIP program promises a deferred reward for generating superior average 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 2009 LTIP grants will vest on December 31, 2012: the 2010 grants will vest one year later. 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 2009 and 2010, the stretch targets are $500 million. Total LTIP grants for 2009 were $4,453, so the maximum payable in 2013 will be 3 x $4,453 = $13,359. Assuming that the average 2009-2012 stretch target is $500 million, this would represent about 2.6 cents for every dollar of average value-added over four-years. Similarly, for 2010, LTIP grants totalled $5,222, so the maximum payable in 2014 will be 3 x $5,222 = $15,666 The annual accrued LTIP liability at any point in time reflects the potential value of all grants, based on average active performance from the date they were awarded.

2) The RFU program is a supplementary compensation plan based on a notional investment in the total fund, 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 total RFU grant for 2010 is $nil (2009 - $630). Total RFU eligible payouts in 2010 are $152 (2009 – nil). RFU is accrued over the one to three year vesting period.

3) 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. This amount has been accrued and expensed, $1,740 in 2010 (2009 - $566). The amount accrued in 2009 was an estimate based on actuarial values from 2006. The Corporation will obtain an updated actuarial report every three years.

Note 8 (continued)

	($ thousands) 2010	2009
Accrued retirement obligation, beginning of year	$ 566	$ -
Past service costs arising from plan initiation	1,740	566 *
Interest cost	27	-
Current service costs	150	-
Accrued retirement obligation, end of year	$ 2,483	$ 566

* Estimate for new SRP from the prior year. The actual obligation was determined by actuarial valuation as of January 1, 2010 at $2,306.

The following table presents key assumptions applicable to the new SRP set up as of January 1, 2010.

	2010
Annual Discount Rate	4.5%
Annual Salary Increase - base	3.5%
Annual Salary Increase - merit and promotion	1.3%
Expected long term return on plan assets	6.0%
Inflation rate	2.5%

NOTE 9 SHAREHOLDER'S EQUITY

a) SHARE CAPITAL

	($ thousands) 2010	2009
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

b) CONTRIBUTED SURPLUS

The Contributed Surplus of $3,647 (2009 - $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 MANAGEMENT FEES

Revenue and expenses include external investment management fees of $169,277 (2009 - $174,059). This includes performance based fees of $25,690 (2009 - $19,948) as well as investment, custodial, legal, audit and other services provided by external managers 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 and 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.

NOTE 11 CHANGES IN OPERATING ACCOUNTS

	($ thousands) 2010	2009
Decrease (increase) in accounts receivable	$ 128	$ (8,335)
Increase in prepaid expenses	(476)	(1,064)
Increase in accounts payable and accrued liabilities	13,047	4,463
(Decrease) increase in accrued vacation and benefits	(112)	209
Increase in long-term employee benefits	3,969	925
	$ 16,556	$ (3,802)

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, 2010 assets under its administration totaled approximately $70.7 billion (2009 - $69.0 billion), at market value. These assets were administered on behalf of the following clients of the Corporation.

	($ thousands) 2010	2009
Pension plans	$ 27,652,448	$ 22,953,797
Ministry of Finance and Enterprise		
General revenue and entity investment funds*	20,713,819	23,023,127
Endowment funds (including the Alberta Heritage Savings Trust Fund)	17,133,500	16,397,866
Insurance related funds	2,186,113	2,237,132
Other government ministry investment funds	3,042,063	4,293,262
	$ 70,727,943	$ 68,905,184

* General Revenue Fund Policy loans have been excluded from 2009 and 2010 numbers, 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.

Pursuant to Order in Council 23/2008 the Province of Alberta has made available a facility to access up to a maximum of $200 million for letters of credit for security purposes. This facility is utilized by the investment pools and at March 31, 2010 the balance outstanding against the facility is $10,210.

Note 12 (continued)

At March 31, 2010, investments administered by the Corporation were held in the following asset classes:

	($ thousands) 2010	2009
Fixed income		
Fixed income*	$ 35,588,666	$ 38,956,967
Private mortgages	2,090,276	1,967,976
Inflation sensitive		
Real estate	4,650,792	5,239,624
Infrastructure and timber	1,729,492	1,717,835
Real return bonds and commodities	1,691,637	1,197,983
Equities		
Public equities and absolute return strategies	23,411,199	18,360,255
Private equity	1,451,946	1,358,713
Overlays	113,935	105,831
	$ 70,727,943	$ 68,905,184

* General Revenue Fund Policy loans have been excluded from 2009 and 2010 numbers, as they are managed by the Ministry of Finance and Enterprise.

NOTE 13 CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

a) CAPITAL MANAGEMENT

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 amount of consideration agreed upon between the related parties.

	($ thousands) 2010	2009
Revenues		
Service Revenue	$ 59,406	$ 39,771
Expenses		
Interest on Advance from Province of Alberta	$ 65	$ 546
Contracted Services (rent & other)	1,610	2,043
	$ 1,675	$ 2,589
Assets		
Accounts Receivable	$ 12,196	$ 12,324
Liabilities		
Accounts Payable	$ 5,403	$ 925
Advance from Province of Alberta	28,249	28,249
	$ 33,652	$ 29,174

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 years ended March 31st in accordance with Treasury Board directive 03/2007. This directive applies to all departments, regulated funds, provincial agencies, and Crown-controlled organizations.

($ thousands)

	2010					2009
	Base Salary(1)	**Variable Pay**(2)	**Other Cash Benefits**(3)	**Other Non-Cash Benefits**(4)	**Total**	Total
Chairman of the Board(5)	$ -	$ -	$ 108	$ -	**$ 108**	$ 80
Board Members(5)	-	-	435	-	**435**	347
Chief Executive Officer(6)	500	502	17	50	**1,069**	1,603
Chief Investment Officer(7)	91	-	137	14	**242**	2,806
Chief Operating Officer	254	299	55	25	**633**	355
Chief Financial Officer	250	67	1	25	**343**	213
Chief Risk Officer	225	175	1	36	**437**	356

1) Base Salary consists of all regular pensionable base pay earned.
2) Variable Pay is accrued based on goal attainment for the calendar year end and paid in the subsequent period.
3) Other Cash Benefits consist of 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, RFU paid during the year and health plan coverage.
5) The Board consisted of 11 independent members from July 2009 to November 2009 including the Chairman, whose salary is disclosed separately. The Deputy Minister of Finance and Enterprise was a Board member and received no compensation from Corporation during this time. The remainder of the year the Board consisted of 10 independent members.
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 AIMCo was June 30, 2009.

Note 15 (continued)

Deferred Long-Term Incentive Compensation

($ thousands)

	2010 LTIP Grant	2010 RFU Grant	2010 Total	2009 Total
Chief Executive Officer	$ 500	$ -	**$ 500**	$ 500
Chief Investment Officer	362	-	**362**	362
Chief Operating Officer	239	-	**239**	325
Chief Financial Officer	100	-	**100**	75
Chief Risk Officer	169	-	**169**	150

The Corporation provides retention incentives to employees through a Long-Term Incentive Plan (LTIP) as described in Note 8. The LTIP 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 2009 LTIP grants will vest on December 31, 2012: the 2010 grants will vest one year later. In the majority of situations, employees must be actively working for the Corporation on the date of payment.

LTIP grants have not been included in the Salaries and Benefits table because they 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 2009 and 2010, the stretch targets are $500 million. Total LTIP grants for 2009 were $4,453, so the maximum payable in 2013 will be 3 x $4,453 = $13,359. Assuming that the average 2009-2012 stretch target is $500 million, this would represent about 2.6 cents for every dollar of average value-added over four-years. Similarly, for 2010, LTIP grants totalled $5,222, so the maximum payable in 2014 will be 3 x $5,222 = $15,666

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 total RFU grant for 2010 is $nil (2009 - $630). Total RFU eligible payouts in 2010 are $152 (2009 – nil). RFU is accrued over the one to three year vesting period.

NOTE 16 COMMITMENTS

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

	($ thousands)
2011	$ 3,408
2012	3,472
2013	3,662
2014	3,570
2015	3,442
Thereafter	16,350
Total	$ 33,904

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, 2010, which includes the Corporation's offices in Toronto, is $6,766 (2009 – $962).

NOTE 17 2009-2010 Budget

The Corporation's 2009-2010 budget was approved by the Board of Directors on January 30, 2009.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORP.

Financial Statements

Year Ended December 31, 2009

AUDITOR'S REPORT

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

I have audited the balance sheets of the Alberta Local Authorities Pension Plan Corp. (the Corporation) as at December 31, 2009 and 2008 and the statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 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

Edmonton, Alberta
April 15, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at December 31, 2009

	($ thousands) 2009	2008
Assets		
Cash	$ 186	$ 57
Accounts receivable	1	4
Due from LAPP (Note 5)	43	64
	$ 230	$ 125
Liabilities and Sharholders Equity		
Liabilities		
Accrued liabilities	$ 230	$ 125
	230	125
Shareholder's equity		
Share capital (Note 4)	-	-
	$ 230	$ 125

The accompanying notes are part of these financial statements.

Approved by the Board:

Grant Howell
Chair of the Board

Elaine Noel-Bentley
Audit Committee Chair

Statements of Income

For the year ended December 31, 2009

	(thousands)		
	Budget 2009 (Note 10)	Actual 2009	Actual 2008
Revenue			
Service revenue (Note 5)	$ 2,480	$ 2,458	$ 2,497
Miscellaneous revenue		2	6
Total revenue	2,480	2,460	2,503
Operating costs			
Salaries and benefits	880	890	943
Professional fees	385	373	383
Communication expenses	399	362	317
Board costs	373	411	276
Actuarial services	265	254	404
General and administrative	178	170	180
Total operating costs	2,480	2,460	2,503
Net income for the year	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statements of Cash Flows

For the year ended December 31, 2009

	($ thousands)	
	2009	**2008**
Operating activities		
Net income	$ -	$ -
Changes in non-cash working capital		
Decrease in accounts receivable	3	-
Increase in accrued liabilities	103	31
Decrease in deferred revenue	2	-
Decrease in amount due from LAPP	21	3
Increase in cash for the year	129	34
Cash at beginning of year	57	23
Cash at end of year	$ 186	$ 57

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2009

NOTE 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.

NOTE 2 NATURE OF OPERATIONS

The Minister of Finance and Enterprise 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.

NOTE 3 ACCOUNTING POLICIES

All revenues are reported on the accrual basis of accounting. Revenue for future expenses received in advance is recorded as deferred revenue.

NOTE 4 SHARE CAPITAL

	2009	2008
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

NOTE 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 and Enterprise, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

NOTE 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.

NOTE 7 COMMITMENTS

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

	(*thousands*)
2010	197
2011	203
2012	210
2013	217
2014	225
	$ 1,052

NOTE 8 SALARIES AND BENEFITS DISCLOSURE

($ thousands)

	2009				2008
	Base Salary [(a)]	Other cash Benefits [(b)]	Other Non-cash Benefits [(c)]	Total	Total
Corporation Board Chair [(d)]	$ -	$ 39	$ -	$ 39	$ 29
Corporation Board Members (excluding Chair) [(d)]	-	133	-	133	127
President & Chief Executive Officer [(e)]	182	35	40	257	323
Vice-Presidents: Policy and Legal [(f)]	145	28	33	206	218

a) Base salary includes regular base pay.

b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria

c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

d) Remuneration paid for the services of the Chair and 13 board members is classified under Board Meeting Fees and is paid in accordance with the fee structure approved by the Minister of Finance and Enterprise.

e) Position held for ten months, vacant for two months.

f) Position includes three months of Acting Chief Executive Officer pay.

NOTE 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 $97 for the year ended December 31, 2009.

At December 31, 2009, the Management Employees Pension Plan reported a deficiency of $483,199 (2008: $568,574) and the Public Service Pension Plan reported a deficiency of $1,729,196 (2008: $1,187,538). At December 31, 2009, the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $39,516 (2008: 7,111).

NOTE 10 APPROVAL OF 2009 BUDGET

The 2009 budget was approved by the Corporation's Board of Directors on September 11, 2008.

NOTE 11 FINANCIAL STATEMENT APPROVAL

The financial statements were approved by the Corporation's Board of Directors.

ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

Years Ended December 31, 2009 and 2008

AUDITOR'S REPORT

To the Shareholder of Alberta Pensions Services Corporation

I have audited the balance sheets of the Alberta Pensions Services Corporation as at December 31, 2009 and 2008 and the statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's 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 my audits 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
April 6, 2010

[Original signed by Merwan N. Saher, CA]
Auditor General

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at December 31

	($ thousands) 2009	2008
Assets		
Cash	$ 51	$ 52
Accounts receivable	2,530	62
Prepaid expenses	505	715
Due from pension plans (Note 8)	1,989	3,555
Computer systems and other assets (Note 4)	8,770	3,469
	$ 13,845	$ 7,853
Liabilities and Shareholder's Equity		
Liabilities		
Accounts payable and accrued liabilities	1,803	2,983
Accrued salaries and benefits	1,288	1,162
Accrued vacation pay	191	239
Deferred lease inducement (Note 12)	1,793	-
Deferred capital contributions (Note 4)	8,770	3,469
	13,845	7,853
Shareholder's equity		
Share capital (Note 5)	-	-
	$ 13,845	$ 7,853

The accompanying notes are an integral part of these financial statements

Approved by the Board:

Al Mondor, FCA
Chair Board of Directors

Douglas Hollands, BComm, CA
Chair Audit Committee

Statements of Income

Years ended December 31

	2009 Budget (Note 14)	2009 Actual	2008 Actual
	($thousands)		
Operating expense			
Staff and related expense	$ 23,872	$ 22,320	$ 18,791
Contract Services	4,706	4,236	3,860
Materials and supplies	3,127	3,638	3,036
Amortization	2,155	2,045	1,914
Data processing and maintenance	1,580	1,329	1,404
Total before plan specfic and employer specific services	35,440	33,568	29,005
Plan Specific (Note 6)	1,346	1,079	912
Employer specific services (Note 7)	-	22	17
Total operating expense	36,786	34,669	29,934
Recovery of costs (Note 8)	$ 36,786	$ 34,669	$ 29,934

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

Statements of Cashflow

Years ended December 31

	($ thousands) 2009	2008
Operating activities		
Items not affecting cash:		
Amortization	$ 2,045	$ 1,914
Increase in deferred lease inducement (Note 12)	1,793	-
Decrease in deferred capital contributions	(2,045)	(1,914)
	1,793	-
Changes in non-cash working capital items:		
Increase in accounts receivable	$ (2,468)	$ (49)
Decrease (increase) in prepaid expenses	210	(496)
Decrease (increase) in due from pension plans	1,566	(709)
(Decrease) increase in accounts payable and accrued liabilities	(1,180)	1,111
Increase in accrued salaries and benefits	126	185
Decrease in accrued vacation pay	(48)	(39)
	(1,794)	3
	(1)	3
Investing activities		
Acquisition of computer systems and other assets	(7,346)	(1,950)
Financing activities		
Increase in deferred capital contributions	7,346	1,950
(Decrease) increase in cash for the year	(1)	3
Cash at beginning of year	52	49
Cash at end of year	$ 51	$ 52

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

Notes to the Financial Statements

December 31

NOTE 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 on behalf of the Government of Alberta, and accordingly the Corporation is exempt from income and other taxes. Effective January 1, 2009, the Corporation legally changed its name from Alberta Pensions Administration Corporation.

NOTE 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, 2010. These services include the collection and recording of contributions, calculating and paying benefits, communicating to employers and plan members, pension plan board support services and risk management services. In 2008, the Minister also approved the Corporation providing specific services, on a cost recovery basis, for some employers (Note 7).

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PRESENTATION

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

b) 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 5 years.

Amortization will commence the month immediately after the computer systems and other assets has been deemed substantially complete and ready for productive use.

c) USES 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, recovery of costs 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

d) CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, APS adopted the standards of two new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook, namely 3862, Financial Instruments-Disclosures and 3863, Financial Instruments-Presentation. The adoption of these new accounting standards had no impact on accounting or measurement of capital or financial instruments.

Section 3862 and 3863 provide enhanced disclosure requirements relative to financial instruments. Specifically, they require additional disclosure about the nature and extent of risks associated with financial instruments and how those risks are managed. This enhanced disclosure is provided in Note 13.

e) FUTURE ACCOUNTING CHANGES

The CICA will transition Canadian GAAP to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Corporation has the option of transitioning to IFRS.

The Corporation is evaluating if it will present its financial statements in accordance with IFRS. The Corporation does not believe this transition will have any significant impact on its financial statements.

NOTE 4 COMPUTER SYSTEMS AND OTHER ASSETS

($ thousands)

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	7,562	2,023	5,539	283
Computer equipment	4,867	3,558	1,309	1,483
Furniture and equipment	1,357	377	980	185
Computer software	12,498	11,756	742	1,366
Telephone system	218	18	200	152
	$ 26,502	$ 17,732	$ 8,770	$ 3,469

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.

NOTE 5 SHARE CAPITAL

$

	2009	2008
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

NOTE 6 PLAN SPECIFIC

The Corporation makes certain payments on behalf of the public sector pension boards and committees. These expenses, which are incurred directly by the boards and committees and which the Corporation does not control, are as follows:

($ thousands)

	2009				2008
	Contract Services	Materials and Supplies	Board Remuneration	Total	Total
MEPP	$ 226	$ 118	$ 38	$ 382	$ 341
SFPP	174	85	41	300	273
PSPP	193	97	-	290	268
MSRP	47	-	-	47	4
PJMC(R)PP	29	-	-	29	2
PSM(CM)PP	13	11	-	24	24
MLAPP	10	-	-	10	-
PJMC(U)PP	(3)	-	-	(3)	-
Total	$ 689	$ 311	$ 79	$ 1,079	$ 912

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

NOTE 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) 2009	2008
City of Calgary	$ 9	$ -
City of Edmonton	6	-
EPCOR Utilities Inc.	2	-
Government of Alberta	2	17
Calgary Health Region	1	-
Legislative Assembly of Alberta	1	-
Telus Communications Inc.	1	-
	$ 22	$ 17

NOTE 8 RECOVERY OF COST

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 decided by the Minister of Finance and Enterprise. The current allocation formula was effective January 1, 2006. At December 31, 2009, $1,989 (2008 - $3,555) is receivable from the plans. The receivable at year-end is directly related to the timing of the receipt and disbursement of funds.

	($ thousands) 2009	2008
LAPP	$ 21,776	$ 18,637
PSPP	9,180	8,075
MEPP	1,526	1,375
SFPP	1,197	1,020
MSRP	414	304
PSM(CM)PP	294	276
PJMC(R)PP	114	78
PJMC(U)PP	72	75
MLAPP	62	51
	34,635	29,891
Interest and other miscellaneous cost recoveries	12	26
Employer specific services (Note 7)	22	17
Recovery of costs	$ 34,669	$ 29,934

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

NOTE 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 $1,688 for the year ended December 31, 2009 (2008: $1,495). 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, 2008 indicated the Public Service Pension Plan had a deficiency of $1,187,538 (2007 - $92,509) and the Management Employees Pension Plan had a deficiency of $568,574 (2007 - $84,341). At December 31, 2008, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $7,111 (2007 surplus - $1,510).

NOTE 10 RELATED PARTY TRANSACTIONS

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

	($ thousands) 2009	2008
Service Alberta - Data processing and postage and printing	$ 855	$ 723
University of Alberta - Management training	81	31
Alberta Finance and Enterprise - Risk management and insurance	39	37
Alberta Infrastructure - Parking rental	6	10
	$ 981	$ 801

The Corporation also provided services to the public sector pension plans and public sector pension plan boards and committees as disclosed in Notes 6 and 8. These transactions are in the normal course of operations.

NOTE 11 SALARIES AND BENEFITS DISCLOSURE

a) BOARD REMUNERATION

The Board Chair received remuneration of $32 (2008: $42). Eight Board members (five in 2008) received remuneration of $155 (2008: $118). Two Board members, who are employed by the Government of Alberta, are not eligible for remuneration.

This remuneration is paid in accordance with the rates approved by the Lieutenant Governor in Council, and is subject to the applicable withholdings.

b) EXECUTIVE COMPENSATION

		($ thousands)				
Name and principal postion (at year end)	Year	Base Salary (1)	Variable Pay (2)	Pension Value (3)	Other Compensation (4)	Total Compensation
Monica Norminton	2009	$ 251	$ 34	$ 49	$ 54	$ 388
President and Chief Executive Officer	2008	218	25	43	29	315
Ryan Barrack	2009	176	18	33	20	247
Vice President, Finance and Compliance	2008	157	3	30	12	202
Lesley Bowering	2009	176	18	33	24	251
Vice President, External Relations	2008	156	12	30	20	218
Brian Luterbach	2009	176	6	33	22	237
Vice President, Information Technology (6	2008	117	1	20	7	145
	2009	22	-	4	194	220
Vice President, Pension Services (5)	2008	162	19	31	11	223
Faye Rault	2009	53	-	10	8	71
Vice President, Plan Operations (5)	2008	-	-	-	-	-
Jeff Uhlich	2009	176	18	33	15	242
Vice President, Human Resources	2008	159	18	30	9	216
	2009	-	-	-	-	-
Vice President, Strategic Planning (7)	2008	80	20	15	24	139

(1) . Base salary includes regular base pay and any retroactive adjustments to base pay

(2) Variable pay is calculated based on achievement of predetermined corporate measures. The amounts disclosed were paid in the year based on the prior year's results

(3) Executives participate in the Management Employee Pension Plan (MEPP) and Supplementary Retirement Plan for Public Service Managers (MSRP). Combined, these plans provide pension benefits equal to 2% of the executive's best five-year average annual pensionable salary for each year of service. The pension provided by the MEPP is limited to the maximum pensionable salary limit permitted under the federal *Income Tax Act* (ITA). The MSRP provides a pension in respect of the base salary in excess of the maximum pensionable salary limit.

The pension value represents the Corporation's share of contributions to the plans based on each executive's pensionable salary.

(4) Other compensation includes such cash benefits as: automobile allowance, lump sum payments and vacation payouts where applicable. Also included are non-cash benefits such as the Corporation's share of all employee benefits and contributions or payments made on their behalf including health care, dental coverage, group life insurance, long-term disability, WCB premiums, professional memberships and tuition fees. Included in other compensation for 2009 are severance payments for positions that had turnover.

(5) The Vice President, Pension Services position was terminated February 19, 2009. A new position was created, Vice President, Plan Operations. Faye Rault has occupied this position since September 14, 2009.

(6) Brian Luterbach has occupied the position since August 25, 2008. The predecessor occupied the position until May 31, 2008.

(7) The Vice President, Strategic Planning retired on August 25, 2008. The position was terminated at this time.

NOTE 12 COMMITMENTS

The Corporation has entered into an agreement with minimum annual commitments for office space as follows:

	($ thousands) Total Commitments
2010	1,729
2011	1,729
2012	1,729
2013	1,729
2014	1,792
Thereafter	8,942
	$ 17,650

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. The inducement is included in accounts receivable at December 31, 2009 and was collected subsequent to year-end.

NOTE 13 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.

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 primary source of liquidity is amounts charged to pension plans (Note 8).

It is management's opinion that the Corporation is not exposed to significant risks arising from these financial instruments.

NOTE 14 2009 BUDGET

The Corporation's 2009 budget was approved by the Board of Directors on November 27, 2008.

NOTE 15 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's Board of Directors.

NOTE 16 COMPARATIVE FIGURES

Certain 2008 figures have been reclassified to conform with the 2009 presentation.

ALBERTA SECURITIES COMMISSION

Financial Statements

Year Ended March 31, 2010

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

I have audited the balance sheets of Alberta Securities Commission as at March 31, 2010 and 2009 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Commission's 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 financial statements present fairly, in all material respects, the financial position of the Commission as at March 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

Edmonton, Alberta
June 15, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at March 31

	($ thousands) 2010	2009
ASSETS		
Current		
Cash (Note 4)	$ 11,343	$ 8,188
Funds held for others (Note 9)	-	9
Accounts receivable	148	22
Prepaid expenses	330	64
	11,821	8,283
Non-current		
Restricted cash (Note 3)	280	190
Investments (Note 4)	30,749	28,826
Capital assets (Note 6)	2,028	2,305
Lease deposit and other	17	153
	33,074	31,474
Total assets	$ 44,895	$ 39,757
LIABILITIES AND RETAINED EARNINGS		
Current		
Funds held for others (Note 9)	$ -	$ 9
Accounts payable and accrued liabilities	2,824	2,400
Accrued vacation and benefits liabilities	393	353
Lease inducement (Note 7)	124	124
	3,341	2,886
Non-current		
Lease inducement (Note 7)	-	124
Accrued benefit liability (Note 8)	3,782	3,316
Total liabilities	7,123	6,326
Retained earnings (Note 3)	37,772	33,431
Total liabilities and retained earnings	$ 44,895	$ 39,757

The accompanying notes and schedules 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

Statements of Income and Retained Earnings

For the years ended March 31

($ thousands)

	2010 Budget (Note 12)	2010 Actual	2009 Actual
Revenue			
Fees (Note 10)	$ 24,061	$ 25,744	$ 24,921
Investment Income (loss) (Note 5)	1,500	3,930	(3,234)
Settlement payments and cost recoveries (Note 10)	-	2,499	1,246
Conference fees and other	25	18	21
Administrative penalties revenue (Note 3)	600	542	153
Total revenue	26,186	32,733	23,107
Expense			
Salaries and benefits	21,948	19,501	18,017
Professional services	3,501	2,591	2,877
Administration	3,460	2,468	2,125
Premises	2,350	2,170	2,197
Amortization	1,456	1,193	1,085
Investor education (Note 3)	667	469	216
Total expense	33,382	28,392	26,517
Budget contingency	3,338		
Net income (loss)	$ (10,534)	4,341	(3,410)
Opening retained earnings		33,431	36,841
Closing retained earnings (Note 3)		$ 37,772	$ 33,431

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

Statements of Cash Flows

For the years ended March 31

	($ thousands) 2010	2009
Operating transactions		
Fees and other	$ 25,790	$ 24,898
Settlement payments and cost recoveries	2,499	1,246
Payments to and on behalf of employees	(18,735)	(17,498)
Payments to suppliers for goods and services	(7,911)	(7,465)
Investment income (loss)	3,930	(3,234)
Administrative penalties	506	206
Cash from (used in) operating transactions	6,079	(1,847)
Capital transactions		
Cash used to acquire capital assets	(911)	(255)
Cash used in capital transactions	(911)	(255)
Investing transactions		
(Increase) decrease in restricted cash	(90)	48
(Increase) decrease in portfolio investments	(3,863)	3,347
Transfer from portfolio investments	1,940	2,500
Cash (used in) received from investing transactions	(2,013)	5,895
Increase in cash	3,155	3,793
Opening cash	8,188	4,395
Closing cash	$ 11,343	$ 8,188

The accompanying notes and schedules 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 accordance with the investment policies 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 generally accepted accounting principles for the public sector.

AIMCo and Minister of Finance and Enterprise administer and report 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 collectability.

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.

Note 2 (continued)

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, funds held for others, 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	remaining period of use to December 2010
Leaseholds (Note 6)	over 15- year lease term commencing December 2010

f) FEES AND ADMINISTRATIVE PENALTY, SETTLEMENT PAYMENTS AND COST RECOVERY 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.

Note 2 (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 accumulated net penalty revenue of $280 ($190 in F2009). This amount is represented by restricted cash, as described in Note 2(j).

The change in restricted cash is compromised of:

	($ thousands) 2010	2009
Administrative penalties	$ 1,190	$ 1,903
Less provision for uncollectible amounts	(1,075)	(1,835)
Plus recoveries of prior year assessments	425	77
Net realizable value	540	145
Interest income and other	2	8
Administrative penalty revenue	542	153
Plus: Education seminar fees	17	15
Less: Eligible education expenses	(469)	(216)
Restricted cash increase (decrease)	90	(48)
Restricted cash opening balance	190	238
Restricted cash closing balance	$ 280	$ 190

NOTE 4 CASH AND INVESTMENTS

a) SUMMARY

($ thousands)

	2010			2009		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	$ 11,343	$ 11,343		$ 8,188	$ 8,188	
Investments						
Deposit in the CCITF	$ 74	$ 74	0.2	$ 72	$ 72	0.3
Fixed-income securities	22,564	22,267	72.1	21,246	20,006	73.2
Equities	8,111	8,539	27.7	7,508	7,269	26.5
	$ 30,749	$ 30,880	100.0	$ 28,826	$ 27,347	100.0

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is administered 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, 2010, securities held by the CCITF have a time weighted return of 1.0 per cent per annum (3.0 per cent in F2009).

The ASC's investments are held in pooled investment funds established and administered 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, 2010 have an average effective market yield of 5.0% per cent per annum (7.4 per cent in F2009), with maturities ranging from less than one year to over 20 years and a duration of 5.85 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 bonds and 25 per cent equities with a small value of residual cash.

NOTE 5 INVESTMENT INCOME (LOSS)

	($ thousands) 2010	2009
Net realized gain (loss) on investments, including $888 gain ($1,564 loss in F2009) from derivatives	$ 2,608	$ (4,868)
Interest	1,196	1,362
Dividends	142	276
Other	(16)	(4)
	$ 3,930	$ (3,234)

The ASC's investments increased in market value 20.9 per cent for the year ended March 31, 2010 (11.7 per cent loss in F2009). This performance compares to a benchmark (composite of DEX T-Bill, Bond and S&P/TSX indexes) gain of 13.9 per cent in F2010 and benchmark loss of 4.3 per cent in F2009.

NOTE 6 CAPITAL ASSETS

($ thousands)

	Computer equipment and software	Furniture and equipment	Leaseholds	2010 Total	2009 Total
Estimated Useful Life	3 years	10 years	Lease Duration		
Cost					
Beginning of year	$ 2,949	$ 950	$ 4,013	$ 7,912	$ 7,463
Additions	538	59	319	916	452
Disposals	(667)	-	-	(667)	(3)
	$ 2,820	$ 1,009	$ 4,332	$ 8,161	$ 7,912
Accumulated Amortization					
Beginning of year	$ 2,391	$ 519	$ 2,697	$ 5,607	$ 4,525
Amortization expense	341	133	719	1,193	1,085
Disposals	(667)	-	-	(667)	(3)
	$ 2,065	$ 652	$ 3,416	$ 6,133	$ 5,607
Net Book Value	$ 755	$ 357	$ 916	$ 2,028	$ 2,305

Leaseholds include $423 ($117 in F2009) for a lease commencing December 1, 2010.

NOTE 7 LEASE INDUCEMENT

Lease Term	($ thousands) Current Inducement
8 years, ending March 2011	$ 124

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability is comprised of:

	($ thousands) 2010	($ thousands) 2009
Retirement Plan	$ 184	$ 208
Supplemental Pension Plan	3,681	3,184
Less: current portion	(83)	(76)
	$ 3,782	$ 3,316

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

	($ thousands) 2010	($ thousands) 2009
Public Service Pension Plan	$ 550	$ 469
Registered Retirement Savings Plan	446	425
Retirement Plan	-	20
Supplemental Pension Plan	551	486
	$ 1,547	$ 1,400

a) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2009, the Public Service Pension Plan reported a deficiency of $1,729,196 and in 2008 a deficiency of $1,188,000.

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 are paid to August 2017 as they come due ($24 in F2010, $23 in F2009) 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 ($124 effective January 1, 2010, and $122 effective January 1, 2009) 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:

Note 8 (continued)

	($ thousands)	
Balance sheet at March 31	**2010**	**2009**
Accrued benefit and unfunded obligation	$ 3,676	$ 3,192
Unamortized transitional obligation	(64)	(93)
Unamortized actuarial gain	69	85
Accrued benefit liability	$ 3,681	$ 3,184
Accrued benefit obligation		
Accrued benefit obligation at beginning of the year	$ 3,192	$ 2,869
Service cost	322	298
Interest cost	216	170
Benefits paid of $54 ($46 in F2009 plus net actuarial gain)	(54)	(145)
Accrued benefit obligation at end of the year	$ 3,676	$ 3,192

	($ thousands)	
Pension expense	**2010**	**2009**
the pension expense for the Supplmental Pension Plan is as follows:		
Service cost	$ 322	$ 298
Interest cost	216	170
Amortization of transitional obligation	29	26
Recognized acturial gains during the year	(16)	(8)
	$ 551	$ 486

The assumptions used in the current (2010) and prior (2009) actuarial valuations 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.

	2010	2009
Discount rate, year end obligation	6.2%	5.4%
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	6 years

NOTE 9 FUNDS HELD FOR OTHERS

The ASC held, in a separate bank account, $9 in F2009 in cash for participants in the Market Integrity Computer Analysis (MICA) system upgrade project. The project is complete. There are no future commitments and the remaining cash balance will be returned to participants in the current year.

NOTE 10 FEES, SETTLEMENTS AND COST RECOVERIES

	($ thousands) 2010	2009
Distribution of securities	$ 11,658	$ 11,126
Registrations	9,082	9,025
Annual financial statements	4,686	4,470
Orders (applications)	318	300
Total fees	$ 25,744	$ 24,921
Settlement agreements and cost recoveries	$ 2,219	$ 1,941
Less provision for uncollectible amounts	(139)	(746)
Plus recoveries of prior year assessments	419	51
Total settlement payments and cost recoveries	$ 2,499	$ 1,246

NOTE 11 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 2010 total $57,969 ($64,366 in F2009). 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.

2010-11	$ 3,052
2011-12	2,605
2012-13	2,647
2013-14	2,691
2014-15	2,737
Thereafter	44,237
Total	$ 57,969

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.

Note 11 (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 $49,135 at March 31, 2010 ($35,188 in F2009). 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 proceeding with plans to redevelop these three systems in a multi-year phased approach. Funding for this renewal program will come from accumulated surplus amounts. Commitments at March 31, 2010 are less than $1.0 million, primarily for preliminary analysis and enterprise architecture design.

b) LEGAL ACTIONS

The ASC is not currently involved as defendant in any legal actions.

NOTE 12 BUDGET

The ASC's budget was approved on January 14, 2009.

NOTE 13 RELATED PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $35 ($32 in F2009) in administration expense.

SCHEDULE OF SALARIES AND BENEFITS

Schedule A

For the Year Ended March 31, 2010

($ thousands)

	2010				2009
	Base Salary (1)	Cash Benefits (2)	Non-cash Benefits (3)	Total	Total
Chair, Securities Commission (4)	$ 496	$ 83	$ 119	$ 698	$ 698
Executive Director	316	56	143	515	461
Vice Chair, Securities Commission (4)	276	50	125	451	397
Vice Chair, Securities Commission (4)	276	50	81	407	370
Independent Members (5)	561	-	-	561	404

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 in Note 8 (d) of the financial statement 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 $342,000 ($333,000 in F2009) and hearing and application panel participation of $219,000 ($71,000 in F2009). 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)

	2010			2009
	Current Service Costs	Prior Service and Other Costs	Total	Total
Chair, Securities Commission	$ 103	$ (11)	$ 92	$ 100
Executive Director	87	27	114	71
Vice Chair, Securities Commission	66	13	79	66
Vice Chair, Securities Commission	50	6	56	44

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, 2009	Changes in accrued obligation	Accrued obligation March 31, 2010
Chair, Securities Commission	$ 293	$ 104	$ 397
Executive Director	596	87	683
Vice Chair, Securities Commission	464	66	530
Vice Chair, Securities Commission	206	50	256

Commercial
Enterprises

ATB FINANCIAL

Consolidated Financial Statements

Years Ended March 31, 2010

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise:

I have audited the consolidated balance sheets of Alberta Treasury Branches as at March 31, 2010 and 2009 and the consolidated statements of income, comprehensive income and changes in equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Alberta Treasury Branches' 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 Alberta Treasury Branches as at March 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

Edmonton, Alberta
May 19, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Consolidated Balance Sheet

As at March 31

	($ thousands)	
	2010	**2009**
Assets		
Cash resources (Note 8)		
Cash	$ 179,424	$ 353,724
Interest-bearing deposits with financial institutions	675,576	2,516,489
	855,000	2,870,213
Securities (Note 9)	1,158,900	1,228,305
Loans (Notes 10 and 11)		
Residential mortgage	7,989,004	7,368,397
Business	8,722,605	8,958,493
Personal	5,446,028	4,926,582
Credit card	599,379	541,940
Allowance for credit losses	(222,413)	(193,177)
	22,534,603	21,602,235
Other		
Premises and equipment (Note 13)	188,831	175,523
Derivative financial instruments (Note 20)	226,509	258,694
Software and other intangibles (Note 14)	201,767	110,618
Other assets (Note 15)	263,408	268,555
	880,515	813,390
	$ 25,429,018	$ 26,514,143
Liabilities and Equity		
Deposits (Note 16)		
Personal	$ 10,427,133	$ 10,797,569
Business and other	9,544,040	10,158,290
Wholesale	2,607,994	2,925,387
	22,579,167	23,881,246
Other Liabilities		
Securities sold under repurchase agreements	-	286,404
Derivative financial instruments (Note 20)	146,892	127,518
Other Liabilities (Note 17)	623,432	403,278
	770,324	817,200
Capital Investment Notes (Note 28)	224,994	-
Subordinated Debentures (Note 18)	45,176	57,013
Equity		
Retained earnings	1,777,223	1,649,753
Accumulated other comprehensive income (Note 24)	32,134	108,931
	1,809,357	1,758,684
	$ 25,429,018	$ 26,514,143

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

Approved by the Board:

Bob Splane
Chairman of the Board

Brian McCook
Chairman of the Audit Committee

Consolidated Statement of Income

Years ended March 31

	2010 ($ thousands)	2009
Interest Income		
Loans	$ 987,545	$ 1,099,173
Interest-bearing deposits with financial institutions	29,516	60,828
Securities	14,051	34,986
	1,031,112	1,194,987
Interest Expense		
Deposits	348,203	544,808
Capital investment notes	5,432	
Subordinated debentures	2,107	2,616
Securities sold under repurchase agreements	682	218
	356,424	547,642
Net Interest Income	674,688	647,345
Other income		
Service charges	70,900	69,748
Card fees	49,338	44,942
Investor services	42,340	36,749
Credit fees	20,157	11,240
Securitization Income (Note 12)	18,273	53,809
Insurance	12,633	22,346
Foreign exchange	11,257	10,043
Sundry	7,325	208
(Loss) gain on derivative financial instruments, net	(11,440)	10,597
	220,783	259,682
Operating Revenue before the undernoted	895,471	907,027
Receovery (provision for loss) on asset-backed commercial paper (Note 9)	537	(224,816)
Total Operating Revenue	896,008	682,211
Provision for credit losses (Note 11)	58,947	42,712
Non-interest Expenses		
Salaries and employee benefits (Notes 19 and 22)	367,830	333,028
Data processing	72,594	73,622
Premises and occupancy, including amortization	72,229	55,418
Professional and consulting costs	32,927	33,320
Marketing and supplies	28,842	29,760
Deposit guarantee fee	23,706	29,417
Software and other intangibles amortization	21,952	17,040
Communication	19,994	18,685
Equipment, including amortization	19,110	16,857
ATB agencies	8,175	8,492
Other	4,157	17,448
	671,516	633,087
Net Income Before Payment in Lieu of Tax	165,545	6,412
Payment in lieu of tax (Note 27)	38,075	-
Net Income	$ 127,470	$ 6,412

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

Consolidated Statement of Comprehensive Income and Changes in Equity

Years ended March 31

($ thousands)	2010	2009
Net income	$ 127,470	$ 6,412
Other comprehensive income (loss)		
Change in unrealized gains and (losses) on available-for-sale securities and interest-bearing deposits with financial institutions, net of cash flow hedges	(6,593)	5,751
Reclassification to earnings in respect of available-for-sale securities and interest-bearing deposits with financial institutions	(3,882)	7,257
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	510	104,377
Reclassification to earnings of (gains) and losses on cash flow hedges	(66,832)	(33,565)
	(76,797)	83,820
Comprehensive Income	$ 50,673	$ 90,232

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

Consolidated Statement of Changes in Equity

($ thousands)	2010	2009
Retained Earnings		
Balance at beginning of the year	$ 1,649,753	$ 1,643,341
Net income	127,470	6,412
Balance at end of the year	1,777,223	1,649,753
Accumulated other Comprehensive Income		
Balance at beginning of the year	108,931	25,111
Other comprehensive income (loss)	(76,797)	83,820
Balance at end of the year	32,134	108,931
Equity as at March 31	$ 1,809,357	$ 1,758,684

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

Consolidated Statement of Cash Flows

Years ended March 31

	($ thousands) 2010	2009
Cash Flows from Operating Activites		
Net Income	$ 127,470	$ 6,412
Adjustments to determine net cash flows:		
Provision for credit losses	58,947	42,712
Amortization of premises and equipment	32,466	29,755
Amortization of software and other intangibles	21,952	17,040
Net changes in accrued interest receivable and payable	(14,659)	42,112
Net changes in derivative Financial Instruments	(14,762)	(33,505)
(Recovery) provision for loss on asset-backed commercial paper	(537)	224,816
Gains on Sale of securitized residential mortgage loans (Note 12)	(32,710)	(53,311)
Change in provision for payment in lieu of tax	38,075	-
Net changes in cheques and other items in transit	(13,400)	22,299
Change in due to clients, brokers,and dealers	9,664	4,033
Change in deposit guarantee fee payabe	(4,298)	7,794
Change in accounts payable and accrued liabilites	200,878	58,072
Other items, net	24,662	20,551
Net cash provided by operating activities	433,748	388,780
Cash Flows from Financing Activites		
Net changes in deposits	(1,290,598)	2,712,857
Repayment of subordinated debentures	(11,837)	(15,985)
Issuance of capital investment notes	224,994	-
Changes in securities sold under repurchase agreements	(286,404)	286,404
Net cash (used in) provided by financing activities	(1,363,845)	2,983,276
Cash Flows from Investing Activites		
Net changes in interest-bearing deposits with financial institutions	1,839,788	(587,214)
Purchase of securities	(1,675,501)	(2,772,652)
Proceeds from securities	1,736,085	2,583,889
Net change in loans, excluding securitization	(1,987,184)	(3,255,323)
Proceeds from loan securitizations	1,001,484	1,045,462
Purchases of premises, equipment, software, and other intangibles	(158,875)	(124,061)
Net cash provided by (used in) investing activites	755,797	(3,109,899)
Net (Decrease) Increase in Cash	(174,300)	262,157
Cash at beginning of year	353,724	91,567
Cash at End of Year	$ 179,424	$ 353,724
Supplementary Cash Flow Information:		
Amount of interest paid during the year	$ 390,399	$ 549,229

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

Notes to the Consolidated Financial Statements

For the Years Ended March 31
($ thousands)

NOTE 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.

NOTE 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, are established by Order in Council and incorporated under the Business Corporations Act (Alberta):

- ATB Investment Services Inc., incorporated October 3, 1997
- ATB Investment Management Inc., incorporated August 21, 2002
- ATB Securities Inc., incorporated February 6, 2003
- ATB Insurance Advisors Inc., incorporated July 21, 2006

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.

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.

NOTE 3 CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

On April 1, 2009, ATB adopted the new accounting standard of the Canadian Institute of Chartered Accountants (CICA) entitled Goodwill and Intangible Assets (Section 3064). This new standard establishes the criteria for recognition, measurement, presentation, and disclosure of goodwill and intangible assets and replaces the Goodwill and Other Intangible Assets and Research and Development Costs standards.

The provisions of this section were adopted retrospectively with restatement of prior years. Although the adoption of this standard did not result in a change in the recognition of ATB's intangible assets, it did require that intangible assets relating to application software be reclassified from premises and equipment to software and other intangibles on the consolidated balance sheet and that the related amortization expense also be reclassified. This information is presented in note 14.

Financial Instrument Disclosures

In June 2009, the CICA amended its Financial Instruments – Disclosures standard, to expand disclosures of fair value measurement of financial instruments and liquidity risk. The amendment includes a requirement to classify financial instruments reported at fair value using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. This information is presented in note 5.

The additional disclosures related to liquidity risk require a maturity analysis of financial liabilities. This information is presented in the Risk Management section of the MD&A.

The amendments are effective for ATB's March 31, 2010, annual financial statements. The amendments do not impact ATB's results or financial position as they relate only to disclosure.

Classification and Impairment of Financial Assets

In August 2009, the CICA amended the Financial Instruments – Recognition and Measurement standard to reduce differences with International Financial Reporting Standards (IFRS).

The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008, with retroactive application to the beginning of the fiscal year. Entities were permitted, but not required, to apply these amendments to the interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements were issued on or after August 20, 2009. ATB adopted these amendments in the current fiscal year. The amendments are as follows:

- The definition of the loans and receivables financial asset category, which is measured at cost or amortized cost calculated using the effective interest method, has been modified. As a result, debt instruments not quoted in an active market can be classified as loans and receivables, and impairment is measured using the incurred-credit-loss model of Section 3025, Impaired Loans. Loans and receivables that an entity intends to sell immediately or in the near term must be classified as held for trading, and loans and receivables, for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available for sale.

- Reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category is permitted under certain circumstances.

- Reversal of an impairment loss relating to an available-for-sale debt instrument is required when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized.

The initial adoption of these amendments did not impact ATB's consolidated financial statements.

NOTE 4 FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

ATB classifies 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).

NOTE 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.

Note 5 (continued)

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 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.

Note5 (continued)

The following tables summarize ATB's financial instrument classifications and provide their carrying value and fair value as at March 31:

CARRYING VALUE

As at March 31, 2010

($ thousands)

	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	Held-to-maturity instruments 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 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.

Note 5 (continued)

CARRYING VALUE
As at March 31, 2010
($ thousands)

	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	Held-to-maturity instruments measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total Carrying Value	
Financial Assets									
Cash	$ 353,724	$ -	$ -	$ -	$ -	$ -	$ -	$ 353,724	(1)
Interest-bearing deposits with									(1)
financial institutions	1,221	-	2,515,268	-	-	-	-	2,516,489	
Securities	-	629,192	599,113	-	-	-	-	1,228,305	(1)
Loans							-		
Residential mortgages	-	-	-	7,368,397	-	-	-	7,368,397	
Business	-	-	-	8,958,493	-	-	-	8,958,493	
Personal	-	-	-	4,926,582	-	-	-	4,926,582	
Credit Card	-	-	-	541,940	-	-	-	541,940	
Allowance for credit losses	-	-	-	(193,177)	-	-	-	(193,177)	
	-	-	-	21,602,235	-	-	-	21,602,235	(2)
Other									
Derivative financial instruments	120,079	-	-	-	-	-	138,615	258,694	
Other assets	-	-	-	210,009	-	-	-	210,009	
	120,079	-	-	210,009	-	-	138,615	468,703	(1)
Financial Liabilities									
Deposits									
Personal	-	-	-	-	-	(10,797,569)	-	(10,797,569)	
Business and other	-	-	-	-	-	(10,158,290)	-	(10,158,290)	
Wholesale	-	-	-	-	-	(2,925,387)	-	(2,925,387)	
	-	-	-	-	-	(23,881,246)	-	(23,881,246)	(3)
Other									
Securities sold under repurchase agreemets	-	-	-	-	-	(286,404)	-	(286,404)	
Derivative financial instruments	(112,926)	-	-	-	-	-	(14,592)	(127,518)	
Other liabilities	-	-	-	-	-	(373,554)	-	(373,554)	
	(112,926)	-	-	-	-	(659,958)	(14,592)	(787,476)	(1)
Subordinated debentures	-	-	-	-	-	(57,013)	-	(57,013)	(4)

(1) Fair value estimated to equal carrying value.
(2) Fair value of loans estimated to be $22,743,383.
(3) Fair value of deposits estimated to be $24,203,643.
(4) Fair value of subordinated debentures estimated to be $60,789.

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 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.

Note 5 (continued)

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, and retained rights to future excess interest on securitization transactions. (Refer to note 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, 2010:

	As at March 31, 2010 ($ thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Interest-bearing deposits with financial instruments	$ 200,060	$ 475,516	$ -	$ 675,576
Securities				
Available for sale securities	6,227	481,704	60,273	548,204
Held for trade securities	-		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 intruments	-	(146,674)	(218)	(146,892)
Other liabilities	-	-	(7,350)	(7,350)
Total financial liabilities	$ -	$ (146,674)	$ (7,568)	$ (154,242)

Note 5 (continued)

ATB performs 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, 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.

The following table presents the changes in fair value of Level 3 financial instruments for the year ended March 31, 2010:

As at March 31, 2010
($ thousands)

	Available-for-sale securities	Held-for-trading securities	Fair value of derivatives financial liabilities	Other liabilities
Fair value as at March 31, 2009	$ 127,931	$ 629,192	$ (3)	$ -
Total realized and unrealized gains (losses) included in Net Income	(18,351)	(16,958)	(215)	$ (2,253)
Total realized and unrealized gains (losses) included in OCI	(3,837)	-	-	$ -
Net purchases, sales, issuances, and settlements	(45,470)	(1,538)	-	$ (5,097)
Fair value as at March 31, 2010	$ 60,273	$ 610,696	$ (218)	$ (7,350)
Change in unrealized gains (losses) included in income with respect to financial instruments held as at March 31, 2010	$ (18,414)	$ (16,958)	$ (215)	$ (2,253)

NOTE 6 FINANCIAL INSTRUMENTS - RISK MANAGEMENT

ATB has included certain disclosures required by CICA Handbook Section 3862 in shaded sections of the 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 2010 consolidated financial statements.

NOTE 7 CAPITAL DISCLOSURE

ATB manages capital to ensure that it meets the minimum levels set out by its regulator, Alberta Finance and Enterprise, while supporting the continued growth of its business and building shareholder value.

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 current 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.

Note 7 (continued)

As at March 31, 2010, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the amended Capital Adequacy Guideline.

	($ thousands) 2010	2009
Tier 1 capital		
Retained earnings	$ 1,777,223	$ 1,649,753
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	9,076	-
Capital investment notes	179,995	-
General allowance for credit losses	172,657	164,238
Notional capital	568,133	600,000
	929,861	764,238
Total regulatory capital	$ 2,707,084	$ 2,413,991
Total risk-weighted assets	$ 19,732,223	$ 18,770,083
Risk-weighted capital ratios		
Tier 1 capital ratio	9.0%	8.8%
Total capital ratio	13.7%	12.9%

NOTE 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, 2010, carrying value of interest-bearing deposits with financial institutions consists of $675,576 (2009: $2,515,268) classified as AFS, and none (2009: $1,221) classified as HFT.

NOTE 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 in interest income in the consolidated statement of income. Gains and losses realized on the disposal of securities are included in 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 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.

Note 9 (continued)

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

($ thousands)

	Less than 1 year	From 1 to 5 years	Over 5 years	2010 Total carrying value	2009 Total carrying value
Available-for-sale securities					
Issued or guaranteed by the Canadian federal or Provincial governments[1]	$ 481,221	$ -	$ -	$ 481,221	$ 460,120
Commercial paper	-				
Third-party-sponsored ABCP	-	-	3,227	3,227	72,385
Retained interest in securitization	-	57,046	-	57,046	55,546
Other	6,227	483	-	6,710	11,062
Total available-for-sale securities	487,448	57,529	3,227	548,204	599,113
Held-for-trading securities					
Commercial paper					
Third-party-sponsored ABCP	-	-	564,657	564,657	582,792
Bank-sponsored ABCP	-	-	46,039	46,039	46,400
Total held-for-trading securities	-	-	610,696	610,696	629,192
Total Securities	$ 487,448	$ 57,529	$ 613,923	$ 1,158,900	$ 1,228,305

[1] *At March 31, 2009 ATB had entered into repurchase agreements with respect to certain securities. ATB transferred these securities to third parties but has continued to recognize them on the Consolidated Balance Sheet because the transactions do not qualify for derecognition. The carrying value of these securities at March 31, 2009 was $290,339.*

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $23,804 as at March 31, 2010 (2009: $44,440).

Note 9 (continued)

Gross unrealized gains (losses) on available-for-sale securities and interest-bearing deposits with financial institutions are presented in the following table:

As at March 31, 2010	($ 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 governments	$ 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

As at March 31, 2009	($ 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 governments	$ 452,097	$ 8,023	$ -	$ 460,120
Commercial paper				
Third-party-sponsored ABCP	72,571	-	(186)	72,385
Retained interest in securitization	51,316	4,230	-	55,546
Other	11,062	-	-	11,062
Total available-for-sale securities	$ 587,046	$ 12,253	$ (186)	$ 599,113
Interest-bearing deposits with				
financial institutions	$ 2,514,156	$ 1,207	$ (95)	$ 2,515,268
Total available-for-sale investments	$ 3,101,202	$ 13,460	$ (281)	$ 3,114,381

Asset-Backed Commercial Paper

As at March 31, 2010, ATB held asset-backed commercial paper (ABCP) with a total face value of $1,023,371 (2009: $1,102,488). During the year, ATB received principal payments of $70,469 and interest payments of $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.

Note 9 (continued)

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:

	($thousands)				
	Cost	Coupon		Expected maturity	Credit rating
Third-party ABCP					
MAV 1					
Class A-1	$ 412,583	0.30%	(1)	Dec 2016	A
Class A-2	384,746	0.30%	(1)	Dec 2016	A
Class B	65,594	0.30%	(1)	Dec 2016	None
Class C	26,737	20.0%	(1)	Dec 2016	None
Tracking notes for ineligible assets	26,114	Floating	(2)	July 2056	None
Total MAV 1	**$ 915,774**				
MAV 3					
Tracking notes for traditional assets	5,806	Floating	(2)	Sept 2016	None
Total MAV 3	**$ 5,806**				
Other	34,770	1.55%	(1)	Dec 2016	B
Total Third-party ABCP	**$ 956,350**	**$ 0**			
Bank-sponsored ABCP	**67,021**	0% to 0.35%	(1)	Dec 2013 to Sept 2016	None to AA
Total ABCP	**$ 1,023,371**				

(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.

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, $29,528 has been recorded in other liabilities. As at March 31, 2010, no amount has been funded under the MFF.

Note 9 (continued)

In addition to the MFF, there is also a senior funding facility. This facility is supported by the governments of Canada, Quebec, Alberta, and Ontario to cover possible shortfalls in the existing MFFs under the MAV 1. ATB and all other investors must pay a fee to cover the cost of this facility.

Currently there is a moratorium in place that prevents collateral calls on the leveraged super-senior trades. This moratorium ends in July 2010.

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, 2010, 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, 2010 and 2009:

($ thousands)

	2009 cost	2009 estimated fair value	Note redemptions	Foreign exchange impact [(1)]	2010 cost	2010 esitmated fair value
MAV 1	$ 925,960	$ 556,389	$ 1,538	$ 8,648	$ 915,774	$ 550,054
MAV 3	74,737	72,385	68,931	-	5,806	3,227
Other third-party sponsored ABCP	34,770	26,403	-	-	34,770	14,603
Bank-sponsored ABCP	67,021	46,400	-	-	67,021	46,039
Total ABCP	$ 1,102,488	$ 701,577	$ 70,469	$ 8,648	$ 1,023,371	$ 613,923

[(1)] *MAV 1 includes securities with a carrying value of $23,804 denominated in US 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 discount rate used for the A-1, A-2, and B notes was based on a spread over bankers' acceptances and ranged from 541 basis points to 2915 basis points (545 basis points to 1878 basis points at March 31, 2009). The coupon rates, term to maturity, and anticipated cash flows have been based on the expected terms of each note. The fair value of the MAV 1 notes remains at 60.1% of cost, which is the same ratio as reported in the prior year.

The CDX.IG index improved between March 31, 2010 and March 31, 2009. This would generally result in an increase in the estimated fair value of the notes held, but ATB believes that there is sufficient uncertainty relative to the fair value of the notes that it would not be appropriate to make a significant positive adjustment to the valuation at this time. Although credit spreads have tightened since March 31, 2009, thereby reducing the probability of collateral calls after the moratorium period ends in July 2010, the credit risk still remains. The first 18 to 24 months post-restructuring are the period of greatest credit risk. As time passes, the spread-loss triggers continue to widen, making collateral calls less likely. In addition, with the passage of time the risk of credit losses is more determinable. ATB will continue to review the valuation of these notes quarterly. Positive valuation adjustments will only be made once there is sufficient certainty that the value of the notes has increased. If the CDX.IG index spreads increase or credit losses occur, ATB will evaluate whether further negative valuation adjustments are necessary

Note 9 (continued)

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.

Other Third-Party ABCP
Dominion Bond Rating Service (DBRS) downgraded this investment from BBB at March 31, 2009, to B (high) during the year because of concern over the credit quality of the underlying assets. Based on the continuing negative outlook for this investment, ATB has reduced the fair value to $14,603 (42.0% of cost), down from the $26,403 (or 75.9% of cost) recorded at March 31, 2009. 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 69.2% of cost at March 31, 2009, to 68.7% at March 31, 2010. 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 $8,005 of interest income recognized on its ABCP during the year, ATB also recognized $4,197 in other income, representing the accretion of the MFF deferral. The $537 recovery of loss on ABCP recognized this year is the net of an $8,537 increase in the provision and a $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 $34,900.

NOTE 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.

Note 10 (continued)

Impaired Loans

Loans, except for credit cards, are classified as impaired when principal or interest payments are more than 90 days past due, unless the loan 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 write-offs 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:

($ thousands)

	2010				2009
	Gross impaired loans	Specific allowances	General allowances	Net carrying value	Net carrying value
Residential mortgages	$ 7,989,004	$ 984	$ 10,891	$ 7,977,129	$ 7,357,506
Personal	5,446,028	8,089	30,729	5,407,210	4,896,541
Credit card	599,379	-	22,302	577,077	524,524
Agricultural	1,330,649	861	13,169	1,316,619	1,218,851
Independent business	2,364,973	5,788	47,221	2,311,964	2,273,403
Commercial	5,026,983	1,571	80,808	4,944,604	5,331,410
	$ 22,757,016	$ 17,293	$ 205,120	$ 22,534,603	$ 21,602,235

The net carrying value of the above loans includes mortgages insured primarily by the Canada Mortgage and Housing Corporation, totalling $2,908,963 as at March 31, 2010 (2009: $2,727,688), and other insured loans, totalling $94,148 (2009: $88,245).

Included in loans at March 31, 2010 are $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 $212,589 as at March 31, 2010 (2009: $409,952).

Note 10 (continued)

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:

($ thousands)

	Residential mortgages	Business	Personal	Credit Card [1]	2010 Total	2009 Total
Up to one month	$ 119,697	$ 49,983	$ 33,814	$ 35,018	$ 238,512	$ 217,087
Over one month up to two months	15,903	4,451	8,252	8,857	37,463	29,706
Over two months up to three months	2,151	6,378	5,811	3,625	17,965	16,981
Over three months	1,012	2,389	8,478	6,133	18,012	10,195
	$ 138,763	$ 63,201	$ 56,355	$ 53,633	$ 311,952	$ 273,969

[1] *Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.*

Impaired Loans

Impaired loans including the related allowances are as follows:

($ thousands)

	2010			2009
	Gross impaired loans	Specific allowances	Net carrying value	Net carrying value
Residential mortgages	$ 68,938	$ 984	$ 67,954	$ 29,260
Commercial	5,034	1,571	3,463	3,301
Personal	29,380	8,089	21,291	12,904
Independent business	25,043	5,788	19,255	9,937
Agricultural	4,084	861	3,223	4,093
	$ 132,479	$ 17,293	$ 115,186	$ 59,495

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, 2010, no single industry segment represents more than 22.3% (2009: 27.2%) of total gross business loans, and no single borrower represents more than 0.32% (2009: 0.40%) of the total gross loan portfolio.

NOTE 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.

Note 11 (continued)

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. At March 31, 2010 and 2009, there was no special general allowance.

Note 11 (continued)

The continuity of the allowances for credit losses is as follows:

	For the Years Ended March 31 ($ thousands)					
	Specific		General		Total	
	Specific		General		Total	
	2010	2009	2010	2009	2010	2009
Balance at begining of year	$ 18,157	$ 11,896	$ 176,854	$ 153,010	$ 195,011	$ 164,906
Write-offs	(36,158)	(16,350)	-	-	(36,158)	(16,350)
Recoveries	5,778	3,743	-	-	5,778	3,743
Provision for credit losses,	30,681	18,868	28,266	23,844	58,947	42,712
Balance at end of year	18,458	18,157	205,120	176,854	223,578	195,011
Less: Allowance for cost of credit recovery included in other liabilities	1,165	1,834	-	-	1,165	1,834

NOTE 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 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.

Note 12 (continued)

The following table summarizes the residential mortgage loans securitized by ATB:

For the years ended March 31	*($ thousands)* 2010	2009
Proceeds, net of transaction fees	$ 1,001,484	$ 1,045,462
Retained interests	40,413	61,486
Deferred servicing revenue	(7,283)	(6,265)
	1,034,614	1,100,683
Residential mortgages securitized and sold	1,001,904	1,047,372
Gains on sale, net of transaction fees	$ 32,710	$ 53,311

The following table summarizes the impact of securitization activities on the Consolidated Statement of Income:

For the years ended March 31	*($ thousands)* 2010	2009
Gain on sale, net of transaction fees	$ 32,710	$ 53,311
Servicing revenues	3,977	1,028
Other securitization loss	(18,414)	(530)
Securitization income	$ 18,273	$ 53,809

The following table summarizes certain cash flows received from the CMB program:

For the years ended March 31	*($ thousands)* 2010	2009
Net proceeds from new securitizations	$ 1,001,484	$ 1,045,462
Cash flows received on retained interests	13,852	5,773

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 to the assumptions:

As at March 31	2010	2009
Expected weighted average life of mortgage pool in months	40.8	40.9
Prepayment rate	15.0%	15.0%
Excess spread	2.1%	2.8%
Discount rate	3.3%	3.1%

As at March 31	2010	2009
Carrying amount of retained interest	$ 57,046	$ 55,546
Prepayment rate	15.0%	15.0%
Impact on fair value of 10% adverse change	$ (1,364)	$ (2,453)
Impact on fair value of 20% adverse change	$ (2,685)	$ (4,280)
Residual cash flows discount rate	3.3%	3.1%
Impact on fair value of 10% adverse change	$ (261)	$ (242)
Impact on fair value of 20% adverse change	$ (476)	$ (492)

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.

Note 12 (continued)

The following table summarizes information on residential mortgages serviced by ATB:

As at March 31	*($ thousands)* 2010	2009
Total residential mortgages being serviced	$ 9,451,744	$ 8,366,473
Less morgages securitized	1,462,740	998,076
Total residential mortgages on consolidated balance sheet	$ 7,989,004	$ 7,368,397

NOTE 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 building 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

As at March 31	*($ thousands)* 2010			2009
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Land	$ 7,546	$ -	$ 7,546	$ 7,546
Buildings	112,983	62,815	50,168	59,332
Buildings under capital lease [(1)]	9,518	468	9,050	-
Computer equipment	60,012	35,213	24,799	27,313
Other equipment	43,280	31,882	11,398	10,621
Leasehold improvements	122,453	85,984	36,469	29,051
Computer equipment under development	20,150	-	20,150	21,877
Leasehold improvements under construction	29,251	-	29,251	19,783
	$ 405,193	$ 216,362	$ 188,831	$ 175,523

[(1)] *During the year ended March 31, 2010, ATB entered into a capital lease for a building.*

Amortization expense charged to the consolidated statement of income for the year ended March 31, 2010, for premises and equipment was $32,466 (2009: $29,755).

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, 2010 (2009: nil).

NOTE 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.

As at March 31 *($ thousands)*

	2010			2009
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Software	$ 158,785	$ 97,783	$ 61,002	$ 60,468
Other intangibles	1,316	256	1,060	-
Computer equipment under development	139,705	-	139,705	50,150
	$ 299,806	$ 98,039	$ 201,767	$ 599,612

As a result of the adoption of the new Goodwill and Intangible Assets standard, the net carrying value of $ 201,767 (2009: $110,618) for software and other intangibles was reclassified from premises and equipment to software and other intangibles in the consolidated balance sheet.

Amortization expense charged to the consolidated statement of income for the year ended March 31, 2010, for software and intangibles was $21,952 (2009: $17,040).

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, 2010 (2009: nil).

NOTE 15 OTHER ASSETS

Other assets consist of the following:

As at March 31 *($ thousands)*

	2010	2009
Accrued interest receivable	$ 114,600	$ 133,917
Cheques and other items in transit	56,700	34,100
Prepaid expenses and other receivables	40,540	65,831
Accrued pension-benefit asset (Note 19)	33,419	21,445
Other	18,149	13,262
	$ 263,408	$ 268,555

NOTE 16 DEPOSITS

Deposit balances consist of the following

As at March 31

($ in thousands)	Payable on demand	Payable after notice	Payable on a fixed date					2010 Total	2009 Total
			Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years		
Personal	$ 1,645,167	$ 3,745,527	$ 2,158,971	$ 1,928,252	$ 430,549	$ 220,367	$ 298,300	$ 10,427,133	$ 10,797,569
Business and other	4,826,130	2,045,770	2,307,754	264,701	50,063	19,994	29,628	9,544,040	10,158,290
Wholesale	-	-	1,011,223	798,385	399,193	399,193	-	2,607,994	2,925,387
	$ 6,471,297	$ 5,791,297	$ 5,477,948	$ 2,991,338	$ 879,805	$ 639,554	$ 327,928	$ 22,579,167	$ 23,881,246

Total deposits presented above include $667,528 (2009: $502,961) denominated in U.S. funds.

As at March 31, 2010, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $23,600 (2009: $9,284).

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, 2010, the fee was $23,706 (2009: $29,417).

NOTE 17 OTHER LIABILITIES

Other liabilities consist of the following:

As at March 31 ($ thousands)	2010	2009
Accrued interest payable	$ 125,509	$ 159,485
Accounts payable and accrued liabilities	388,635	195,107
Payments in lieu of tax payable (Note 27)	38,075	-
Cheques and other items in transit	16,500	7,300
Deposit guarantee fee payable	23,706	28,004
Due to clients, brokers, and dealers	16,998	7,334
Achievement notes (Note 29)	7,350	-
Accrued pension-benefit liability (Note 19)	6,659	6,048
	$ 623,432	$ 403,278

NOTE 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.

Subordinated debentures consist of the following:

Maturity date	Interest rate	($ thousands) 2010	2009
June 30, 2009	3.8%	-	11,837
June 30, 2010	4.2%	15,785	15,785
June 30, 2011	4.6%	13,401	13,401
June 30, 2012	4.5%	15,990	15,990
		$ 45,176	$ 57,013

The outstanding subordinated debentures were issued with an original term of five years in respect to ATB's annual deposit guarantee fee obligations. Subordinated debentures were not issued in 2010 or 2009 as the deposit guarantee fee obligation was paid in cash for those years. ATB's obligation for the deposit guarantee fee for the year ended March 31, 2010, is recorded in other liabilities in the consolidated balance sheet (Refer to note 17).

As detailed in note 27, additional subordinated debentures will be issued to settle the current liability for ATB's payment in lieu of tax.

NOTE 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, 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.

Note 19 (continued)

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, 2010, expenses related to the PSPP were $7,907 (2009: $7,290), and expenses related to DC provisions of the ATB Plan were $12,762 (2009: $9,632).

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 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 of December 31, 2008.

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 2010		Actual	Target 2009		Actual
	Normal	Min-Max	2009	Normal	Min-Max	2009
		%			%	
Equities						
Canadian	25	20-30	19	25	20-30	17
Foreign	45	40-50	41	45	40-50	35
	70		60	70		52
Fixed Income						
Canadian	30	20-40	40	30	20-40	48
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, 2010— 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 $41,222 (2009: $20,849). The cash payments increased over the prior year as ATB made an additional contribution to improve the DB plans solvency ratio.

Note 19 (continued)

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:

As at March 31	*($ thousands)* 2010	2009
Registered plan		
Fair value of plan assets	$ 153,015	$ 111,247
Projected benefit obligation	(198,867)	(133,118)
Plan funding deficit	(45,852)	(21,871)
Unamortized past-service amendment	14,065	15,840
Unamortized actuarial net loss	65,206	27,476
Accrued pension-benefit asset	$ 33,419	$ 21,445
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	(7,929)	(4,900)
Unamortized past-service amendment	1,326	1,476
Unamortized actuarial net gain	(56)	(2,624)
Accrued pension-benefit liability	$ (6,659)	$ (6,048)

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.)

Note 19 (continued)

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:

For the years ended March 31	*($ thousands)*			
	Registered plan		Supplemental and other	
	2010	2009	2010	2009
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$ 111,247	$ 143,800	$ -	$ -
Contributions from ATB	20,149	3,710	404	216
Contributions from employees	1,120	1,126	-	-
Actual return (loss) on plan assets	23,181	(34,742)	-	-
Benefits paid	(5,095)	(5,650)	(404)	(216)
Net transfer in - Public Service Pension Plan	3,600	3,894	-	-
Actual plan expenses	(1,187)	(891)	-	-
Fair value of plan assets at end of year	$ 153,015	$ 111,247	$ -	$ -
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	$ 133,118	$ 151,063	$ 4,900	$ 6,131
Actuarial loss (gain)	53,574	(30,075)	2,323	(2,343)
Current service cost	1,406	1,740	653	895
Contributions from employees	1,120	1,126	-	-
Plan amendment - Public Service Pension Plan	90	1,583	-	-
Net transfer in - Public Service Pension Plan	3,600	3,894	-	-
Interest cost	11,054	9,437	457	433
Benefits paid	(5,095)	(5,650)	(404)	(216)
Projected benefit obligation at end of year	$ 198,867	$ 133,118	$ 7,929	$ 4,900

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the SRP and OPEB consists of the following:

For the years ended March 31	*($ thousands)*			
	Registered plan		Supplemental and other	
	2010	2009	2010	2009
Current service cost (including provision for expenses)	$ 2,165	$ 2,500	$ 653	$ 895
Interest cost on projected benefit obligation	11,054	9,437	457	433
Plan amendments	90	1,583	-	-
Actual (return) loss on plan assets	(23,181)	34,742	-	-
Actuarial losses (gains)	53,574	(30,075)	2,323	(2,343)
	43,702	18,187	3,433	(1,015)
Adjustments to recognize the long-term nature of employee future-benefit costs:				
Difference between actual and expected return on plan assets	14,606	(44,949)	-	-
Difference between actual actuarial losses (gains) arising and actuarial losses (gains) amortized	(51,908)	30,075	(2,568)	2,350
Amortization of initial transition asset	-	(394)	-	-
Difference between actual past-service amendment arising and past-service amendments amortized	1,775	172	150	150
Net pension-benefit expense recognized	$ 8,175	$ 3,091	$ 1,015	$ 1,485

Note 19 (continued)

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	
	2010	**2009**	**2010**	**2009**
Accrued benefit obligation as at March 31				
Discount rate at end of year	6.0%	8.3%	6.0%	8.3%
Rate of compensation increase [1]	3.1%	2.6%	3.1%	2.6%
Defined benefit expense for the years ended March 31				
Discount rate at beginning of year	8.3%	6.2%	8.3%	6.2%
Expected long-term return on plan assets	7.3%	7.1%	-	-
Rate of compensation increase [1]	2.6%	4.4%	2.6%	6.0%
Average remaining service period of active employees	8.5 years	9.0 years	9.0 years	12.0 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	-	-	-

[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, 2010, and the related expense for the year then ended:

As at March 31, 2010 *($ thousands)*

		Registered plan		Supplemental and other	
		Benefit obligation	**Benefit expense**	**Benefit obligation**	**Benefit expense**
Discount Rate					
Impact of:	1.0% increase	$ (26,889)	$ (2,043)	$ (966)	$ (121)
	1.0% decrease	$ 34,100	$ 2,458	$ 1,205	$ 147
Inflation Rate					
Impact of:	1.0% increase	$ 15,400	$ 1,760	$ 166	$ (28)
	1.0% decrease	$ (13,719)	$ (1,577)	$ (265)	$ (11)
Rate of Compensation Increase					
Impact of:	0.25% increase	$ 1,252	$ 170	$ 24	$ 18
	0.25% decrease	$ (1,226)	$ (137)	$ (24)	$ (17)
Expected long-term rate of return on plan assets					
Impact of:	1.0% increase	$ -	$ (1,181)	$ -	$ -
	1.0% decrease	$ -	$ 1,181	$ -	$ -

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.

NOTE 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.

Note 20 (continued)

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 of March 31, 2010 (or as of March 31, 2009).

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 $20,732 (2009: $70,839). 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.

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.

Note 20 (continued)

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

As at March 31	*($ thousands)*			
	2010		**2009**	
	Favourable position	**Unfavourable position**	**Favourable position**	**Unfavourable position**
Contracts ineligible for hedge accounting				
Interest rate contracts				
Options	$ 233	$ -	$ 176	$ -
Swaps	-	-	4,736	(2,471)
	233	-	4,912	(2,471)
Embedded derivatives				
Equity-and commodity-linked deposits	-	(45,930)	-	(16,766)
Other	-	(217)	-	(3)
	-	(46,147)	-	(16,769)
Foreign-exchange contracts				
Forwards	6,451	(6,843)	5,331	(1,389)
Equity contracts				
Options	48,405	-	16,764	-
Forward contracts				
Commodities	86,937	(85,944)	93,072	(92,297)
Total fair value ineligible contracts	$ 142,026	$ (138,934)	$ 120,079	$ (112,926)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	84,483	(7,958)	138,615	(14,592)
Total fair value eligible contracts	84,483	(7,958)	138,615	(14,592)
Total fair value	$ 226,509	$ (146,892)	$ 258,694	$ (127,518)
Less impact of master netting agreement	(7,958)		(17,063)	
Less impact of financial institution counterparty collateral held	(86,730)		(103,730)	
Residual credit exposure on derivatives to ATB	$ 131,821		$ 137,901	

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $33,022 which relates to client counterparties (2009: $24,664).

Note 20 (continued)

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:

As at March 31 *($ thousands)*

	2010						2009
	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 Months	3 to 12 Months	1 to 5 Years	Total	Total
Interest rate contracts							
Options	$ 53,889	$ -	$ 2,137	$ 21,333	$ 30,419	$ 53,889	$ 89,376
Swaps	-	2,969,000	680,000	1,200,000	1,089,000	2,969,000	4,166,000
Foreign exchange contracts							
Forwards	1,184,142	-	771,144	280,333	132,665	1,184,142	270,917
Equity contracts							
Options	369,680	-	5,850	58,320	305,510	369,680	238,055
Forward contracts							
Commodities	1,622,390	-	25,213	1,263,034	334,143	1,622,390	1,204,847
Embedded derivatives							
Equity-and commodity-linked deposits	330,615	-	5,680	57,406	267,529	330,615	243,389
Other	40,177	-	1,192	5,436	33,549	40,177	70,094
Total	$ 3,600,893	$ 2,969,000	$ 1,491,216	$ 2,885,862	$ 2,192,815	$ 6,569,893	$ 6,282,678

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 $15,545 as at March 31, 2010 (2009: $26,515).

NOTE 21 COMMITMENTS, GUARANTEES, AND CONTIGENT 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.

Note 21 (continued)

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 as follows:

As at March 31	*($ thousands)* 2010	2009
Guarantees	$ 156,062	$ 170,254
Letters of credit	177,335	150,160
Commitments to extend credit	11,759,001	10,005,865
	$ 12,092,398	$ 10,326,279

The amounts presented above in the current and comparative year for commitments to extend credit include demand facilities of $8,835,193 (2009: $5,443,063). 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.

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	*($ thousands)* 2010	2009
Assets pledged to:		
Bank of Canada	$ 687,377	$ 386,000
Clearing and Depository Services Inc.	14,000	14,000
	$ 701,377	$ 400,000

At March 31, 2010, the total amount of pledged assets encumbered was $ 70,875 (2009: $44,250).

At March 31, 2010, ATB held $86,730 (2009: $103,730) in financial assets as collateral from financial institution counterparties related to derivative contracts.

Note 21 (continued)

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, 2010, and March 31, 2009, in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Margin-Funding Facility

As a participant of MAV 1 under the Montreal Accord, ATB must provide a margin-funding facility (MFF) to cover any potential collateral calls associated with the leveraged super-senior trades underlying the Montreal Accord notes. ATB has the same rank as the other participants in the MFF. This credit commitment totals $551,500 and matures in July 2017. ATB does not receive any fee for providing this commitment. The advances that could be made under the MFF are expected to bear interest at the bankers' acceptance rate. All amounts advanced under the MFF will take precedence over amounts payable on the notes issued under MAV 1.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

As at March 31	*($ thousands)*
2011	$ 127,620
2012	88,018
2013	39,585
2014	28,507
2015	12,663
2016 and thereafter	41,331
	$ 337,724

The total expense for premises and equipment operating leases charged to the consolidated statement of income for the year ended March 31, 2010, is $36,470 (2009: $27,856).

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, 2010 was approximately $176,924. Although not committed contractually, ATB management intends to complete this project in fiscal 2011-12 and expects to spend an additional $148,000. The final project costs may vary depending on the final implementation date.

NOTE 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 years ended March 31:

For the years ended March 31 *($ thousands)*

	2010							2009
	Base Salary [1]	Variable pay current [2]	Variable pay Deferred [3]	Other cash benefits [4]	Retirement and other post-employment benefits	Other non-cash benefits [5]	Total	Total
Chairman of the Board	$ -	$ -	$ -	$ 79	$ -	$ -	$ 79	$ 73
Board Members [6]	-	-	-	435	-	-	435	457
							-	
President and Chief Executive Officer [7]	502	272	204	42	438	18	1,476	1,465
Chief Risk Officer	241	70	53	18	51	15	448	473
Chief Financial Officer	247	71	49	24	42	12	445	445
Chief People and Marketing Officer	231	67	46	24	37	14	419	431
Executive Vice-President Retail Financial Services	221	93	43	23	26	14	420	447
Executive Vice-President Corporate Financial Services	231	83	55	60	43	15	487	551
Executive Vice-President Independent Business and Agriculture [8]	115	95	68	242	4	8	532	-
Executive Vice-President and President ATB Investor Services	251	153	113	20	36	75	648	611

(1) *Base salary consists of all regular pensionable base pay earned.*
(2) *Current variable pay is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.*
(3) *Deferred variable pay is earned in the year, though payment is deferred for up to 33 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, 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 retirement plan or the supplemental retirement plan, but does receive other post-employment benefits.*
(8) *The position Executive Vice-President Independent Business and Agriculture was established in fiscal 2009-10. Other cash benefits for this position include* remuneration paid at hiring to compensate for benefits forgone from a previous employer.

Note 22 (continued)

Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits presented in the Salaries and Benefits table above 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 our non-registered defined benefit supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 19 for a detailed description of ATB's accounting for its retirement plans.)

As at March 31	*($ thousands)*			2010	2009
	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]	$ -	$ 363	$ 75	$ 438	$ 429
Chief Risk Officer	9	26	16	51	79
Chief Financial Officer	9	26	7	42	60
Chief People and Marketing Officer	9	17	11	37	64
Executive Vice-President Retail Financial Services	9	11	6	26	38
Executive Vice-President Corporate Financial Services	9	24	10	43	66
Executive Vice-President Independent Business and Agriculture	4	-	-	4	-
Executive Vice-President and President ATB Investor Services	9	15	12	36	58

(1) As the SRP and 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 represent the total estimated cost incurred in the years ended March 31 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 ATB plan or the SRP, but does receive OPEB.

The accrued SRP and OPEB obligation for each executive is as follows:

	($ thousands)		
	Accrued obligation March 31, 2009	Change in accrued obligation	Accrued obligation March 31, 2010 [3]
President and Chief Executive Officer [1]	$ 655	$ 527	$ 1,182
Chief Risk Officer	261	206	467
Chief Financial Officer	134	116	250
Chief People and Marketing Officer	166	203	369
Executive Vice-President Retail Financial Services	102	76	178
Executive Vice-President Corporate Financial Services	169	158	327
Executive Vice-President Independent Business and Agriculture [2]		-	-
Executive Vice-President and President Investor Services	149	167	316

(1) The incumbent does not participate in either the ATB plan or the SRP, but does receive OPEB.

(2) The position Executive Vice-President Independent Business and Agriculture was established in fiscal 2009-10 and does not participate in the SRP.

(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 8.3% on March 31, 2009 to s6.0% on March 31, 2010, because of changes in market interest rates. Consequently, there was a large increase in the accrued obligation on March 31, 2010.

(4)

NOTE 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, 2010, the total of these payments was $921 (2009: $881). 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 note 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 Financial 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:

As at March 31	($ thousands) 2010	2009
Residential mortgages	$ 274,041	$ 201,117
Personal	117,121	87,954
Credit card	15,909	13,965
Business and other	28,783	5,618
	$ 435,854	$ 308,654

NOTE 24 ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income are:

As at March 31	($thousands) 2010	2009
Net unrealized gains on available-for-sale securities and interest bearing deposits with financial institutions, net of hedging activites	$ 2,703	$ 13,179
Net unrealized gains on derivative instruments designated as cash flow hedges	29,431	95,752
Accumulated other comprehensive income	$ 32,134	$ 108,931

NOTE 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:

	Term to maturity/re-pricing						
	Within 3 months	3 to 12 months	Total within 1 year	1 to 5 years	Over 5 years	Non-Interest rate'-sensitive	Total
2010							
Assets							
Cash	$ 47,382	$ -	$ 47,382	$ -	$ -	$ 132,042	$ 179,424
Effective yield	0.3%	-	0.3%	-	-	-	0.1%
Securities and interest-bearing deposits with financial institutions	1,662,520	114,428	1,776,948	57,528	-	-	1,834,476
Effective yield	0.5%	1.0%	0.5%	-	-	-	0.5%
Loans	15,481,000	1,769,695	17,250,695	5,177,629	52,596	53,683	22,534,603
Effective yield	3.1%	4.9%	3.3%	6.1%	4.6%	-	3.9%
Other	-	-	-	-	-	880,515	880,515
	17,190,902	1,884,123	19,075,025	5,235,157	52,596	1,066,240	25,429,018
Liabilities and Equity							
Deposits	9,882,006	2,886,660	12,768,666	5,280,774	-	4,529,727	22,579,167
Effective yield	0.6%	2.6%	1.0%	2.8%	-	-	1.2%
Other liabilities and equity	-	-	-	-	-	2,579,681	2,579,681
Capital investment note	-	-	-	224,994	-	-	224,994
Effective yield	-	-	-	4.3%	-	-	4.3%
Subordinated debentures	15,785	-	15,785	29,391	-	-	45,176
Effective yield	4.2%	-	4.2%	4.6%	-	-	4.4%
	9,897,791	2,886,660	12,784,451	5,535,159	-	7,109,408	25,429,018
On-balance sheet gap	7,293,111	(1,002,537)	6,290,574	(300,002)	52,596	(6,043,168)	-
Off-balance sheet gap	(989,000)	445,000	(54,400)	54,400	-	-	-
Net gap	$ 6,304,111	$ (557,537)	$ 5,746,574	$ 243,998	$ 52,596	$ (6,043,168)	$ -
As percentage of assets	24.8%	(2.2%)	22.6%	1.0%	0.21%	(23.8%)	-
2009 [(1)]							
Assets	$ 18,336,038	$ 1,389,722	$ 19,725,760	$ 5,826,775	$ 66,497	$ 608,707	$ 26,227,739
Liabilities and equity	10,980,652	3,399,363	14,380,015	9,501,231	-	2,346,493	$ 26,227,739
On-balance sheet gap	7,355,386	(2,009,641)	5,345,745	(3,674,456)	66,497	(1,737,786)	-
Off-balance sheet gap	(2,902,404)	647,000	(2,255,404)	2,255,404	-	-	-
Net gap	$ 4,452,982	$ (1,362,641)	$ 3,090,341	$ (1,419,052)	$ 66,497	$ (1,737,786)	$ -
As percentage of assets	17.0%	(5.2%)	11.8%	(5.4%)	0.3%	(6.6%)	-

(1) At March 31, 2009 the asset and liability side of securities sold under repurchase agreements have been included in the off-balance-sheet gap with other hedging instruments because management uses these instruments for asset/liability gap management purposes.

The effective yield represents the weighted average effective yield based on the earlier of contractual repricing and maturity dates.

Note 25 (continued)

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:

	($ thousands) 2010	2009
Impact on net earninigs in succeeding year from:		
Increase in interest rates of:		
100 basis points	$ 60,583	$ 43,859
200 basis points	122,154	87,421
Decrease in interest rates of:		
100 basis points	(37,918)	(43,859)
200 basis points	(52,628)	(89,458)

NOTE 26 SEGMENTED INFORMATION

ATB has organized its operations and activities around the following three business segments or lines of business:

- **Personal and Business Financial Services** includes Retail Financial Services (RFS) and Independent Business and Agriculture (IB&Ag) lines of businesses. In fiscal 2009-10, management determined that the IB&Ag line of business would be separated from RFS to better serve business and agriculture customers. IB&Ag will be shown as a separate line of business for segmented reporting purposes in fiscal 2010-11.
- **Corporate Financial Services** provides financial services to medium- and large-size corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, life insurance brokerage, and investment advice.

ATB's operating activities are not geographically distributed for external reporting purposes, as all its operations are essentially limited to customers within 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 other business unit (corporate) level only. Because these lines of business are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

Note 26 (continued)

($ thousands)

	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other business units [1]	Total
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 ACBP	-	-	-	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
2009					
Net interest income	$ 474,645	$ 97,952	$ 5,251	$ 69,497	$ 647,345
Other income	135,669	36,760	35,928	51,325	259,682
Provision of loss on ACBP				(224,816)	(224,816)
Total operating revenue (loss)	610,314	134,712	41,179	(103,994)	682,211
Provision for credit losses	16,504	23,545	-	2,663	42,712
Non-interest expenses	476,112	29,507	50,149	77,319	633,087
Income (loss) before payment in lieu of tax	117,698	81,660	(8,970)	(183,976)	6,412
Payment in lieu of tax	-	-	-	-	-
Net income (loss)	$ 117,698	$ 81,660	$ (8,970)	$ (183,976)	$ 6,412
Total assets	$ 17,107,664	$ 5,436,071	$ 20,168	$ 3,950,240	$ 26,514,143
Total liabilities	$ 16,135,022	$ 3,837,884	$ 831,274	$ 3,951,279	$ 24,755,459

[1] *Comprised 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 other business units.

NOTE 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, 2010, ATB accrued a total of $38,075 (2009: nil) for payment in lieu of tax.

This amount must be settled before July 1, 2010, by ATB issuing a subordinated debenture to the Government of Alberta. 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).

NOTE 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 current 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, 2010, $224,994 of these notes were outstanding with a fixed rate of return of 4.25% and will mature in fiscal 2014-15.

NOTE 29 ACHIEVEMENT NOTES

During the year, ATB offered to sell 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.

Each note holder is entitled to:
-A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of the certain ATB subsidiaries

-Cash distributions, if any, based on the net positive dividends paid by certain ATB subsidiaries to ATB commencing this fiscal year

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 $5,097 of these notes, which are recorded in other liabilities on the consolidated balance sheet. An expense of $2,253 was recognized during the year to reflect the increase in the fair value of the notes based on the March 31, 2010, valuation of the notes. As at March 31, 2010, the liability for these notes was $7,350.

NOTE 30 FUTURE CHANGES IN ACCOUNTING POLICIES

Conversion to International Financial Reporting Standards

The Accounting Standards Board confirmed and communicated its decision to replace Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) for publicly accountable enterprises with January 1, 2011, as the changeover date. The Public Sector Accounting Board confirmed that government business enterprises operating as self-sustaining commercial organizations should adhere to standards for publicly accountable enterprises (i.e. IFRS). ATB's consolidated financial statements will be prepared using IFRS for the year ended March 31, 2012, and will include comparative information for fiscal 2010-11. ATB has substantially completed the accounting design phase of its IFRS project, which includes a detailed analysis and evaluation of the IFRS standards relevant to ATB's consolidated financial statements. ATB expects to quantify the preliminary impact on the April 1, 2010, opening IFRS retained earnings by September 30, 2010 (Refer to the Critical Accounting Policies and Estimates section of the MD&A for more information).

NOTE 31 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, 2010

AUDITOR'S REPORT

To the Board of Directors of ATB Insurance Advisors Inc.

I have audited the balance sheets of ATB Insurance Advisors Inc. as at March 31, 2010 and 2009, and the statements of operations and comprehensive loss, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 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

Edmonton, Alberta
June 16, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheet

As at March 31

	($) 2010	2009
ASSETS		
Current assets		
Cash	$ 323,186	$ 235,110
Accounts receivable	48,459	13,058
Due from affiliates (Note 5)	92,768	45,318
	464,413	293,486
Software and other intangibles (Note 6)	12,107	18,160
	$ 476,520	$ 311,646
LIABILITIES		
Current liabilities		
Accrued liabilities	$ 239,419	$ 123,484
Variable compensation payable	69,958	43,708
Due to ATBF (Note 7)	3,737,939	2,820,939
Current portion of deferred revenue	12,662	25,544
Current portion of deferred variable pay	847	3,406
	4,060,825	3,017,081
Other Liabilities		
Deferred revenue	44,892	44,548
Deferred variable pay	14,171	8,227
Achievement notes payable (Note 12)	31,996	-
	$ 4,151,884	$ 3,069,856
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 8)	5,000	5,000
Deficit	(3,680,364)	(2,763,210)
	(3,675,364)	(2,758,210)
	$ 476,520	$ 311,646

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

Approved by the Board of Directors

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Deficit

For the years ended March 31

	($) 2010	2009
Balance - Beginning of year	$ (2,763,210)	$ (1,346,660)
Net loss for the year	(917,154)	(1,416,550)
Balance - End of year	$ (3,680,364)	$ (2,763,210)

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

Statement of Operations and Comprehensive Loss

For the years ended March 31

	($) 2010	2009
Revenue (Note 9)		
Insurance commissions	$ 2,549,719	$ 1,439,054
Interest income	452	3,271
	2,550,171	1,442,325
Administration and Selling expenses (Note 9)		
Variable compensation expense	905,070	413,123
Salaries and employee benefits (Note 12 and 13)	1,182,832	1,248,036
Referral fees paid to affiliates	228,170	182,457
Other expenses	840,763	782,777
Amortization expense	6,053	12,106
Professional fees	234,789	140,017
Interest expense	69,648	80,359
	3,467,325	2,858,875
Net loss and comprehensive loss	$ (917,154)	$ (1,416,550)

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

Statement of Cash Flows

For the years ended March 31

($)

	2010	2009
Cash provided for (used in)		
Operating activities		
Net loss for the year	$ (917,154)	$ (1,416,550)
Items not affecting cash		
Amortization of software and other intangibles	6,053	12,106
	(911,101)	(1,404,444)
Net change in non-cash working capital items		
(increase)in accounts receivable	(35,401)	(13,058)
(Increase) in due to (from) affiliates	(47,450)	(66,479)
Increase in accrued liabilities	115,935	72,354
Increase in variable compensation payable	26,250	29,298
(Decrease) increase in deferred revenue	(12,538)	44,548
Increase in deferred variable pay	3,385	11,633
	50,181	78,296
Net change in non-current items		
Increase in achievement notes payable	31,996	-
	(828,924)	(1,326,148)
Financing activities		
Increase in due to ATB	917,000	1,423,799
Net change in cash	88,076	97,651
Cash- Beginning of year	235,110	137,459
Cash - End of year	$ 323,186	$ 235,110
Supplementary information		
Interest paid	$ 69,648	$ 80,359
Interest received	$ 452	$ 3,271

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

Notes to the Financial Statements

March 31, 2010

NOTE 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, 2010, ATBIA recorded a net loss of $917,154, negative cash flow from operating activities of $828,924 and an accumulated deficit of $3,680,364. The continuing operations of ATBIA are dependent upon ATB’s ongoing financial support.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below:

a) 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.

b) 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.

c) CASH

Cash consists of cash on deposit with ATB.

d) SOFTWARE AND OTHER INTANGIBLES

Computer software is amortized on a straight-line basis over the estimated useful life of between 3 and 5 years. Amortization commences in the year the system development is completed.

e) 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 other liabilities and are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.

Note 2 (continued)

- 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 benefits.

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.

NOTE 3 ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

a) SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

On April 1, 2009 , ATBIA adopted a new accounting standard of the Canadian Institute of Chartered Accounts (CICA) entitled "Goodwill and Intangible Assets" This new standard establishes the criteria for recognition, measurement, presentation and disclosure of goodwill and intangible assets and replaces CICA Handbook Section 3062 "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs".

Although the adoption of this standard did not result in a change in the recognition, it did require that intangible asset relating to software be reclassified from "Capital assets" to "Software and other intangibles" on the Balance Sheet.

b) SECTION 3862 – AMENDMENTS TO FINANCIAL INSTRUMENTS DISCLOSURES

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance fair value and liquidity risk disclosure. The Amendment includes a requirement to classify financial instruments reported at fair value using a three-tier hierarchy that reflects the significance of the inputs used in making the measurement. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and,
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The amendments of this section were adopted prospectively effective for financial statements for the year ending March 31, 2010. The amendments had no impact on ATBIA's results or financial position as they pertain to disclosure only. The classification of the investments within the fair value hierarchy is detailed in Note 11.

c) SECTION 3855 – AMENDMENTS TO FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT

On August 20, 2009, the CICA issued various amendments to section 3855, Financial Instruments – Recognition and Measurement which reduce differences with International Financial Reporting Standards.

The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008 with retrospective application to the beginning of the fiscal year. It is permitted, but not required, to apply these amendments to the interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements are issued on or after August 20, 2009. ATBIA adopted these amendments in the current fiscal year.

The initial application of these amendments did not impact ATBIA's financial statements.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

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. The Management is currently evaluating the effects of all current and pending pronouncements of the IASB on the Company and developing a plan for implementation in conjunction with ATB.

NOTE 5 DUE FROM AFFILIATES

In the normal course of operations, ATBIA pays referral fees to ATB Investment Services Inc. ("ATBIS") and ATB Securities Inc. ("ATBSI"). Alternatively, ATBIA may pay for certain expenses on behalf of ATB Investment Management Inc. ("ATBIM"), ATBIS and ATBSI. The amounts due from affiliates are generally settled in the following month are not subject to interest charges. The amounts due from affiliates as at March 31 are as follows:

	($) 2010	2009
Due from ATBIM	$ 33,568	$ 5,414
Due from ATBIS	45,622	26,046
Due from ATBSI	13,578	13,858
	$ 92,768	$ 45,318

NOTE 6 SOFTWARE AND OTHER INTANGIBLES

($)	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Computer software	$ 30,266	$ (18,159)	$ 12,107	$ 18,160

Amortization expense charged to the Statement of Operations and Comprehensive Loss for the year ended March 31, 2010, in respect to Software and other intangibles was $6,053 ($2009: $12,106).

NOTE 7 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:

	($) 2010	2009
Due to ATB	$ 3,737,939	$ 2,820,939

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2010 was 2.25% (2009: 2.50%).

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding

	($) 2010	2009
Class A common shares	100	100
Amount	$ 5,000	$ 5,000

NOTE 9 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 administrative and selling services, as well as charging interest on amounts owing to ATB.

The summary of these transactions for the period ended March 31 is as follows:

Related party	Transactions	Recorded as	($) 2010	2009
	Revenue			
ATB	Interest	Interest income	$ 452	$ 3,271
	Administrative and selling expenses			
ATBIS	Referral fees	Referral fees paid to affiliates	$ 43,130	$ 59,816
ATBSI	Referral fees	Referral fees paid to affiliates	185,040	122,641
ATB	Administrative services	Other expenses	84,667	87,307
ATB	Information Technology, rent and Marketing	Other expenses	436,886	425,318
			$ 749,723	$ 695,082
	Interest expense			
ATB	Interest expense	Interest expense	$ 69,648	$ 80,359

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.

NOTE 10 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 discount factor used for similar benefit plans. The fair value of achievement notes is estimated monthly based on a valuation formula and periodically by 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 fluctuation 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, 2010, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $37,400.

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 to affiliates. ATBIA has cash and due from affiliates 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 $464,413, 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 and cash equivalents 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.

NOTE 11 FAIR VALUE MEASUREMENTS

The following is a summary of the ATBIA's financial instruments within the fair value hierarchy as at March 31, 2010:

	($)			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Achievement notes	$ -	$ -	$ 31,996	$ 31,996
Total financial liabilities	$ -	$ -	$ 31,996	$ 31,996

The fair value of achievement notes represents ATBIA's proportionate share of unrealized loss included in net loss and the total change in unrealized loss during the year with respect to the liability held at March 31, 2010 (Note 13).

NOTE 12 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, 2010, expenses related to defined contribution plan were $186,724 (2009: $68,524).

NOTE 13 ACHIEVEMENTS NOTES

During the year ATB offered to sell 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 value of certain ATB subsidiaries. Holders of these notes do 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 commencing this fiscal year.

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 will be used to establish the initial purchase price of the notes and the change in fair value period to period up until maturity.

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 on other deposits 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. An expense of $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, 2010, the total liability relative to these notes was $31,996.

NOTE 14 COMPARATIVE FIGURES

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

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2010

AUDITOR'S REPORT

To the Board of Directors of ATB Investment Management Inc.

I have audited the balance sheet of ATB Investment Management Inc. as at March 31, 2010 and 2009, and the statements of operations and comprehensive income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 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

Edmonton, Alberta
June 16, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheet

As at March 31, 2010

	($) 2010	2009
ASSETS		
Current assets		
Cash	$ 2,533,321	$ 1,758,964
Accounts receivable	2,375,690	1,720,555
Due from Affiliates (Note 5)	18,778	-
Prepaid expenses	231,135	202,063
	5,158,924	3,681,582
Other assets (Note 6)		
Equipment	20,191	-
Software and other intangibles	2,920,744	2,757,624
	2,940,935	2,757,624
	$ 8,099,859	$ 6,439,206
LIABILITIES		
Current liabilities		
Accrued liabilities	$ 1,807,183	$ 1,281,383
Due to affiliates (Note 5)	262,678	82,935
Due to ATB (Note 7)	1,349,982	1,209,822
Current portion of deferred variable pay	25,698	23,595
	3,445,541	2,597,735
Other		
Deferred variable pay	137,651	88,006
Acheivement notes payable (Note14)	390,488	-
	3,973,680	2,685,741
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	5,000	5,000
Retained earnings	4,121,179	3,748,465
	4,126,179	3,753,465
	$ 8,099,859	$ 6,439,206

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

Approved by the Board of Directors

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Retained Earnings

For the year ended March 31, 2010

	($) 2010	2009
Balance - Beginning of year	$ 3,748,465	$ 2,781,926
Net income for the period	372,714	1,966,539
Dividends paid	-	(1,000,000)
Balance - End of year	$ 4,121,179	$ 3,748,465

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

Statement of Operations and Comprehensive Income

For the year ended March 31, 2010

	($) 2010	2009
Revenue (Note 9)		
Investment management fees	$ 23,474,526	$ 22,253,145
Other revenue	3,097,770	2,499,866
Interest revenue	4,802	49,051
	26,577,098	24,802,062
Administration and Selling expenses (Note 9)		
Trailing commission	13,042,210	12,270,947
Professional fees	6,240,647	5,218,397
Salaries and employee benefits (Notes 14 and 15)	4,730,834	3,459,225
Other expenses	1,688,737	1,683,923
Amortization expenses	497,237	194,174
Interest expense	4,719	8,857
	26,204,384	22,835,523
Net income and comprehensive income for the year	$ 372,714	$ 1,966,539

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

Statement of Cash Flows

For the year ended March 31, 2010

	($)	
Cash provided for (used in)	**2010**	**2009**
Operating activities		
Net income for the year	$ 372,714	$ 1,966,539
Items not affecting cash		
Amortization of equipment	6,730	-
Amortization of software and other intangibles	490,507	194,174
	497,237	194,174
	869,951	2,160,713
Net change in non-cash working capital items		
(Increase) decrease in accounts receivable	(655,135)	1,432,999
(Increase) in prepaid expenses	(29,072)	(180,766)
Increase (decrease) in accrued liabilities	525,800	(461,090)
Increase (decrease) in due to (from) affiliates	160,965	(972,462)
Increase in deferred variable pay	51,748	47,658
	54,306	(133,661)
Net change in non-current items		
Increase in acheivement notes payable	390,488	-
	1,314,745	2,027,052
Investing activities		
Purchase of equipment, software and other intangibles	(680,548)	(1,525,714)
Financing activities		
Dividends paid	-	(1,000,000)
Increase in due to ATB	140,160	102,071
	140,160	(897,929)
Net change in cash	774,357	(396,591)
Cash - Beginning of year	1,758,964	2,155,555
Cash - End of year	$ 2,533,321	$ 1,758,964
Supplementary information		
Interest paid	$ 4,719	$ 8,857
Interest received	$ 4,802	$ 49,051

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

Notes to the Financial Statements

March 31, 2010

NOTE 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”).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. When necessary, comparative amounts have been reclassified to conform to the current year’s presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below:

a) 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.

b) 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 9). Other revenue include fees earned from clients for management of their accounts.

c) CASH

Cash consists of cash on deposit with ATB.

d) 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.

e) SOFTWARE AND OTHER INTANGIBLES

Computer software and system development costs are amortized on a straight-line basis over the estimated useful life of between 3 and 5 years, Amortization commences in the year the system development is completed.

f) 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 $67,504 (2009: $-).

Note 2 (continued)

g) 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 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, 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.

h) 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.

NOTE 3 ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

a) Section 3064 – Goodwill and intangible assets

On April 1, 2009, ATBIM adopted a new accounting standard of the Canadian Institute of Chartered Accountants (CICA) entitled “Goodwill and Intangible Assets”. This new standard establishes the criteria for recognition, measurement, presentation, and disclosure of goodwill and intangible assets and replaces CICA Handbook Section 3062 “Goodwill and Other Intangible Assets” and 3450 “Research and Development Costs”.

Although the adoption of this standard did not result in a change in the recognition, it did require the intangible asset relating to software be reclassified from “Capital Assets” to “Software and Other Intangibles” on the Balance Sheet.

b) Section 3862 – Amendment of Financial Instrument Disclosures

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance fair value and liquidity risk disclosure. The amendment includes a requirement to classify financial instruments reported at fair value using a three-tier hierarchy that reflects the significance of the inputs used in making the measurement. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices) (Level 2); and,
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

Changes in valuation methods may result in transfers into or out of an investment’s assigned level. The amendments of this section were adopted prospectively effective for financial statements for the year ending March 31, 2010. The amendments had no impact on ATBIM’s results or financials position as they pertain to disclosure only. The classification of investments within the fair value hierarchy is detailed in Note 12.

Note 3 (continued)

c) Section 3855 – Amendment to Financial Instruments Recognition and Measurement

On August 20, 2009, the CICA issued varios amendments to Section 3855, Financial Instruments – Recognition and Measurement which reduce differences with International Financial Reporting Standards.

The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008 with retrospective application to the beginning of the fiscal year. It is permitted, but not required, to apply these amendments to the interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements are issued on or after August 20, 2009. ATBIM adopted these amendments in the current fiscal year.

The initial application of these amendments did not impact ATBIM's financial statements.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

International financial reporting standards

The Accounting Standards Board (AcSB) has confirmed and communicated its plan 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 is currently evaluating the effects of all current and pending pronouncements of the IASB on the Company and is developing a plan for implementation in conjunction with ATB.

NOTE 5 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBIM pays trailing commissions to ATB Investment Services Inc. ("ATBIS") and ATB Securities Inc. ("ATBSI"). ATBSI collects client fees on behalf of ATBIM. ATBIS, 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 ATBIS, ATBSI and ATBIA. The amounts due (to) from ATBIS, ATBSI and ATBIA 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:

	($) 2010	($) 2009
Due from (to) ATBIS	$ 18,778	$ (5,878)
Due (to) ATBSI	(229,110)	(71,644)
Due (to) ATBIA	(33,568)	(5,413)
	$ (243,900)	$ (82,935)

NOTE 6 OTHER ASSETS

($)

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
	$	$	$	$
Equipment	$ 26,921	$ (6,730)	$ 20,191	$ -
Software and other intangibles				
Computer software	3,530,646	(822,685)	2,707,961	652,662
System development costs	212,783	-	212,783	2,104,962
	$ 3,743,429	$ (822,685)	$ 2,920,744	$ 2,757,624
	$ 3,770,350	$ (829,415)	$ 2,940,935	$ 2,757,624

Amortization expense charged to the Statement of Operations for the year ended March 31, 2010, in respect of Equipment was $6,730 (2009: $nil) and Software and other intangibles was $490,507 (2009: $194,174).

NOTE 7 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:

	2010	2009
Due to ATB	$ 1,349,982	$ 1,209,822

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2010 was 2.25% (2008: 2.50%).

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding

	2010	2009
Class A common shares #	100	100
Amount	$ 5,000	$ 5,000

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATB charges ATBIM for certain 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 and ATBIS charge 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 as follows:

Related party	Transactions	Recorded as	2010 ($)	2009 ($)
	Revenue			
ATB	Interest income	Interest revenue	$ 4,802	$ 49,051
	Administrative and selling expenses			
ATBIS	Trailer fees	Trailing Commission	$ 4,449,214	$ 4,523,661
ATBSI	Trailer fees	Trailing Commission	8,584,865	7,734,620
ATB	Administrative Services	Professional fees	87,882	80,607
ATB	Information technology, rent and marketing	Other expenses	726,698	784,961
ATBSI	Client referral fees	Professional fees	1,297,457	902,426
ATBSI	Transaction fees	Other expenses	401,640	358,200
			$ 15,547,756	$ 14,384,475
	Interest expense			
ATB	Other interest expense	Interest expense	$ 4,719	$ 8,857

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.

NOTE 10 COMMITMENTS

ATBIM has various service contracts under non-cancellable contracts. The future minimum payments in respect to such obligations is outlined below:

Year	$
2011	288,800
2012	218,800
2013	164,100
	671,700

NOTE 11 FINANCIAL INSTRUMENTS

ATBIM's financial instruments consist of cash, accounts receivable, accrued liabilities, due (to) from 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.

Note 11 (continued)

FAIR VALUE

The fair value of accounts receivable, accrued liabilities, due (to) from affiliates and 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 discount factor used for similar benefit plans. The fair value of achievement notes is estimated monthly based on a valuation formula, and periodically by 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 amounts 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, 2010, if rates were to change by 1%, the change in interest expense is approximately $13,500.

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 and accounts receivable and due from affiliates. ATBIM has cash and due from affiliates 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 $4,927,789, 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 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 accrued liabilities due to ATB, and due to affiliates.

NOTE 12 FAIR VALUE MEASUREMENTS

The following is a summary of the ATBIM's financial instruments within the fair value hierarchy as at March 31, 2010:

Financial instruments at fair value as at March 31, 2010

	Quoted Prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	$	$	$	$
Achievement notes	$ -	$ -	$ (390,488)	$ (390,488)
Total financial liabilites	-	-	(390,488)	(390,488)

Note 12 (continued)

The fair value of achievement notes represents ATBIM's proportionate share of unrealized loss included in net income and the total change in unrealized loss during the year with respect to the liability held at March 31, 2010 (note 15).

NOTE 13 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 Net Free Capital requirements. The Company has met the minimum Net Free Capital requirement throughout the year.

NOTE 14 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, 2010, expenses related to defined contribution plan were $342,658 (2009: $162,210).

NOTE 15 ACHIEVEMENT NOTES

During the year ATB offered to sell 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 commencing this fiscal year.

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 will be used to establish the initial purchase price of the notes and the change in fair value period to period up until maturity.

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 the right of Alberta on other deposits and there is 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 balance sheet. An expense of $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. At March 31, 2010, the total liability relative to these notes was $390,488.

NOTE 16 COMPARATIVE FIGURES

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

ATB INVESTMENT SERVICES INC.

Financial Statements

Year Ended March 31, 2010

AUDITOR'S REPORT

To the Board of Directors of ATB Investment Services Inc.

I have audited the balance sheets of ATB Investment Services Inc. as at March 31, 2010 and 2009, and the statements of operations and comprehensive loss, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 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

Edmonton, Alberta
June 16, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheet

As at March 31, 2010

	2010 ($)	2009 ($)
ASSETS		
Current assets		
Cash	$ 2,167,183	$ 1,422,689
Short term investments (Note 12)	6,228,624	6,207,220
Clients' cash held in trust	3,405,575	3,849,584
Due from affiliates (Note 5)	183,578	42,108
Due from brokers and dealers	729,907	1,231,698
Due from clients	49,750	56,054
Trailer fees receivable	459,173	362,732
Prepaid expenses	83,008	75,114
	13,306,798	13,247,199
Other assets (Note 6)		
Equipment	409,961	-
Software and other intangibles	3,640,444	1,397,192
	4,050,405	1,397,192
	$ 17,357,203	$ 14,644,391
LIABILITIES		
Current liabilities		
Due to clients	$ 2,533,416	$ 3,155,279
Due to brokers and dealers	1,276,831	1,252,122
Accrued liabilities	1,081,857	610,240
Variable compensation payable	567,047	510,970
Due to ATB (Note 7)	1,655,256	1,033,244
Due to affiliates (Note 5)	64,401	26,046
Unearned revenue	313,894	323,126
Current portion of deferred variable pay	36,883	69,738
	7,529,585	6,980,765
Other Liabilities		
Deferred variable pay	155,491	124,583
Achievement notes payable (Note 15)	362,323	-
	8,047,399	7,105,348
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	51,745,000	44,245,000
Deficit	(42,435,196)	(36,705,957)
	9,309,804	7,539,043
	$ 17,357,203	$ 14,644,391

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

Approved by the Board of Directors

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Deficit

For the year ended March 31, 2010

	2010 ($)	2009 ($)
Balance - Beginning of year	$ 36,705,957	$ 31,470,653
Net loss for the year	5,729,239	5,235,304
Balance - End of year	$ 42,435,196	$ 36,705,957

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2010

	2010 ($)	2009 ($)
Revenue (Note 9)		
Mutual fund commissions	$ 4,932,346	$ 4,997,728
Other commissions	2,401,654	2,244,722
Other revenue	574,926	574,289
Client referral fees	43,131	59,816
Interest revenue	21,377	177,206
	7,973,434	8,053,761
Administration and Selling expenses (Note 9)		
Salaries and employee benefits (Note 14 and 15)	6,286,360	5,852,386
Processing, selling and premises rental	2,832,676	2,989,480
Other expenses	1,957,798	2,037,248
Variable compensation expense	993,649	680,950
Professional expense	1,239,670	1,443,677
Amortization expense	383,517	274,066
Interest expense	9,003	11,258
	13,702,673	13,289,065
Net loss and comprehensive loss for the year	$ 5,729,239	$ 5,235,304

Statement of Cash Flows

For the year ended March 31, 2010

	($) 2010	2009
Cash Provided for (used in)		
Operating activities		
Net loss for the year	$ (5,729,239)	$ (5,235,304)
Items not affecting cash		
Amortization of equipment	9,874	-
Amortization of software and other intangibles	373,643	274,066
	(5,345,722)	(4,961,238)
Net change in non-cash working capital items		
Cash received from (paid to) clients and brokers/dealers	354,950	(536,575)
(Increase) decrease in due to (from) affiliates	(103,115)	115,788
(Increase) decrease in trailer fees receivable	(96,441)	36,327
(Increase) decrease in prepaid expenses	(7,894)	3,584
Increase (decrease) in accrued liabilities	471,617	(28,740)
Increase in variable compensation payable	56,077	94,237
(Decrease) increase in unearned revenue	(9,232)	16,212
(Decrease) increase in deferred variable pay	(1,947)	10,849
	664,015	(288,318)
Net change in non-current items		
Increase in achievement notes payable	362,323	-
	(4,319,384)	(5,249,556)
Investing activities		
(Increase) decrease in short term investments	(21,404)	923,996
Purchase of equipment, software and other intangibles	(3,036,730)	(314,000)
	(3,058,134)	609,996
Financing activities		
Issuance of share capital	7,500,000	4,000,000
Increase in due to ATB	622,012	157,590
	8,122,012	4,157,590
Net change in cash	744,494	(481,970)
Cash- Beginning of year	1,422,689	1,904,659
Cash - End of year	$ 2,167,183	$ 1,422,689
Supplementary information		
Interest paid	$ 9,003	$ 11,258
Interest received	$ 21,377	$ 177,206

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

Notes to the Financial Statements

March 31, 2009

NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Services Inc. ("ATBIS" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established for the purpose of distributing mutual funds and Guaranteed Investment Certificates ("GICs") to customers of ATB. ATBIS was incorporated in Alberta under the Business Corporations Act (Alberta) on October 3, 1997. As a provincial Crown corporation, ATBIS is exempt from income tax. ATBIS is a member of the Mutual Fund Dealers Association of Canada ("MFDA") and is registered with the Alberta Securities Commission ("ASC"). For the year ended March 31, 2010, ABIS reported a net loss of $5,729,239, negative cash flow from operating activities of $4,319,384 and an accumulated deficit of $42,435,196. ATBIS has received $7,500,000 in capital support from ATB through share capital issuance and the continuing operations of ATBIS remains dependent upon ATB's ongoing financial support.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below:

a) 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.

b) REVENUE RECOGNITION

ATBIS earns its revenue from third party clients and affiliates (Note 9) for providing services as a distributor of mutual funds and other investment products. Commission revenue earned on mutual fund sales 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 client fees, 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 fees is paid by ATB to ATBIS based on the average GIC's held by the Company. Insurance referral fees are paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate, to ATBIS based on referrals generated by the insurance product sales.

Unearned revenue relates to annual RRSP administration fees on client accounts that are amortized into income over the calendar year.

c) CASH

Cash consists of cash on deposit with ATB.

d) SHORT TERM INVESTMENTS

Short term investments consist of investments in the ATB Money Market Fund and are valued at fair market value. All interest income earned is included in Interest income.

Note 2 (continued)

e) CLIENTS' CASH HELD IN TRUST

All registered and non-registered client accounts are held in trust with acceptable financial institutions. 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). RRSPs and RRIFs are segregated in trust accounts with ATB. RESPs and TFSAs are segregated in trust accounts with the Canadian Western Trust. Corresponding liabilities are included in Due to clients. Client balances are reported on a trade date basis.

f) EQUIPMENT

Equipment is carried at cost less accumulated amortization. Equipment is amortized on a straight-line basis over the estimated useful life of between 3 and 5 years. No amortization is calculated on assets under construction or development until the assets are used.

g) SOFTWARE AND OTHER INTANGIBLES

Computer software and system development costs are amortized on a straight-line basis over the estimated useful life of between 3 and 5 years. Amortization commences in the year the system development is completed.

h) 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 amounts relate to margin balances and pending trades.

Due (to) from brokers and dealers represents amounts related to trades which have initiated but not been settled.

i) FINANCIAL INSTRUMENTS

ATBIS has made the following designations:

- Cash, short term investments and clients' cash held in trust are classified as financial assets held for trading and measured at fair value.
- Due from clients, due from brokers and dealers, 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.

j) 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.

NOTE 3 ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

a) SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

On April 1, 2009, ATBIS adopted a new accounting standard of the Canadian Institute of Chartered Accountants (CICA) entitled “Goodwill and Intangible Assets”. This new standard establishes the criteria for recognition, measurement, presentation, and disclosure of goodwill and intangible assets and replaces CICA Handbook Section 3062 “Goodwill and Other Intangible Assets” and 3450 “Research and Development Costs.”

Although the adoption of this standard did not result in a change in the recognition, it did require that intangible asset relating to software be reclassified from “Capital assets” to “Software and other intangibles” on the Balance Sheet.

b) SECTION 3862 – AMENDMENT TO FINANCIAL INSTRUMENT DISCLOSURES

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance fair value and liquidity risk disclosure. The amendment includes a requirement to classify financial instruments reported at fair value using a three-tier hierarchy that reflects the significance of the inputs used in making the measurement. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices) (Level 2); and,
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment’s assigned level. The amendments of this section were adopted prospectively effective for financial statements for the year ending March 31, 2010. The amendments had no impact on ATBIS’s results or financial position as they pertain to disclosure only. The classification of investments within the fair value hierarchy is detailed in Note 12.

c) SECTION 3855 – AMENDMENT TO FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT

On April 20, 2009, the CICA issued various amendments to section 3855, Financial Instruments – Recognition and Measurement which reduce differences with International Financial Reporting Standards.

The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008 with retrospective application to the beginning of the fiscal year. It is permitted, but not required, to apply these amendments to the interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements are issued on or after August 20, 2009. ATBIS adopted these amendments in the current fiscal year. The initial application of these amendments did not impact ATBIS’s financial statements.

NOTE 4 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 is currently evaluating the effects of all current and pending pronouncements of the IASB on the Company and is developing a plan for implementation in conjunction with ATB.

NOTE 5 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBIS receives trailing commissions from ATB Investment Management Inc. ("ATBIM"). ATBIM, ATB Securities Inc. ("ATBSI") and ATBIA may pay for certain expenses on behalf of ATBIS. Alternatively, ATBIS may pay for certain expenses on behalf of ATBIM, ATBSI and ATBIA. These amounts are duly recorded, as payables and receivables, in each of ATBSI's, ATBIM's, ATBIS'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:

	($) 2010	($) 2009
Due (to) from ATBIM	$ (18,779)	$ 5,878
Due from ATBSI	183,578	36,230
Due (to) from ATBIA	(45,622)	(26,046)
	$ 119,177	$ 16,062

NOTE 6 OTHER ASSETS

($)	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Equipment	$419,835	($9,874)	$409,961	$ -
Software and other intangibles				
Computer software	$ 3,008,029	$ (837,325)	$ 2,170,704	$ 1,005,868
System development costs	1,469,740	-	1,469,740	391,324
	$ 4,477,769	$ (837,325)	$ 3,640,444	$ 1,397,192
	$ 4,897,604	$ (847,199)	$ 4,050,405	$ 1,397,192

Amortization expense charged to the Statement of Operations and Comprehensive Loss for the year ended March 31, 2010, in respect of Equipment was $9,874 (2009 - $ nil) and Software and other intangibles was $373,643 (2009 - $274,066).

NOTE 7 DUE TO ATB

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBIS. 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:

	($)	
	2010	2009
Due to ATB	$ 1,655,256	$ 1,033,244

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2010 was 2.25% (2009: 2.50%).

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding

	($)	
	2010	2009
Class A common shares	$ 51,744,100	$ 44,244,100
Amount	$ 51,745,000	$ 44,245,000

During the year, the Company issued 7,500,000 class A common shares for proceeds of $7,500,000.

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBIS earns revenue in the form of trailer fees, interest revenue, other revenues and client referral fees from ATB, ATBIM and ATBIA. ATB also charges ATBIS for administrative and selling services, as well as charging interest on amounts owing to ATB. ATBIS recovers certain administrative, processing and selling costs from ATB.

The summary of these transactions for the years ended March 31 is as follows:

Related party	Transactions	Recorded as	($) 2010	2009
	Revenue			
ATBIM	Trailer fees	Mutual Fund Commissions	$ 4,449,214	$ 4,523,611
ATBIA	Insurance referrals	Client referral fees	43,131	59,816
ATB	Interest revenue	Interest revenue	-	1,197
ATB	GIC referral fees	Other commissions	2,401,654	2,244,722
			$ 6,893,999	$ 6,829,346
	Administration and selling expenses			
ATB	Processing	Processing, selling and premises rental	$ 2,873,085	$ 3,069,091
ATB	Selling	Processing, selling and premises rental	152,677	145,973
ATB	Premises and equipment rental	Processing, selling and premises rental	516,131	541,896
ATB	Administrative services	Professional Expenses	356,333	430,406
ATB	Information Technology and Marketing	Other expenses	1,036,444	1,183,123
			$ 4,934,670	$ 5,370,489
ATB	Salaries (recoveries)	Processing, selling and premises rental	$ (340,169)	$ (359,200)
ATB	Processing (recoveries)	Processing, selling and premises rental	(493,086)	(525,583)
ATB	Training (recoveries)	Professional Expenses	(23,314)	(54,365)
ATB	Compliance (recoveries)	Processing, selling and premises rental	(655,065)	(643,357)
			$ (1,511,634)	$ (1,595,196)
	Interest expense			
ATB	Other interest expense	Interest expense	$ 9,003	$ 11,258

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.

NOTE 10 COMMITMENTS

ATBIS is committed to payments under services agreements for data processing services, software licenses, support and maintenance services for various projects through to March, 2012 in the amount of $790,510.

Year	**$**
2011	711,310
2012	79,200
	790,510

NOTE 11 FINANCIAL INSTRUMENTS

ATBIS's financial instruments consist of cash, short term investments, clients' cash held in trust, due (to) from affiliates, due (to) from brokers and dealers, due (to) from clients, trailer fees receivable, accrued liabilities, variable compensation payable, due to ATB and deferred variable pay and achievement note payable.

FINANCIAL RISK MANAGEMENT

ATBIS's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIS's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIS's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

FAIR VALUE

The fair value of due (to) from brokers and dealers, due (to) from clients, trailer fees receivable, 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 discount factor used for similar benefit plans. The fair value of achievement notes is estimated monthly based on a valuation formula, and periodically by 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. ATBIS has no exposure to currency risk as it does not have any financial instruments or transactions denominated in foreign currencies.

Interest rate risk: ATBIS is subject to interest rate cash flow risk as its amount due to ATB and short term investments are subject to interest rate fluctuation and the degree of volatility in these rates. ATBIS 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, 2010, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $16,600.

ATBIS also has short term investments in the ATB Money Market fund. The ATB Money Market fund distributes interest income monthly dependent on prevailing interest rates. As at March 31, 2010, if interest rates were to change by 1%, the change in interest income is approximately $62,300.

Price risk: ATBIS'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

ATBIS is exposed to credit risk through its cash, short term investments, clients' cash held in trust, due from affiliates, due from brokers and dealers, due from clients and trailer fees receivable. ATBIS 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. ATBIS's short term investment consists of ATB Money Market Fund, which invests in high quality money market securities which provides for a stable return. The risk inherent in due from brokers and dealers, due from clients and trailer fees receivable is effectively mitigated by ATBIS's diverse customer and trading counterparty base, and the creditworthiness of the counterparty. The Company's maximum credit exposure is $13,223,790, which is the sum of cash, short term investments, clients' cash held in trust, due from affiliates, due from brokers/dealers, due from clients and trailer fees receivable.

Note 11 (continued)

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 and short term investments 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 due to clients, due to brokers and dealers, accrued liabilities, variable pay compensation payable, due to ATB and due to affiliates.

NOTE 12 FAIR VALUE MEASUREMENTS

The following is a summary of the ATBIS's financial instruments within the fair value hierarchy as at March 31, 2010:

	Financial instruments at fair value as at March 31, 2010 ($)			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	$	**$**	**$**	**$**
Mutual funds	6,228,624	-	-	6,228,624
Total financial assets	6,228,624	-	-	6,228,624
Achievement notes	-	-	(362,323)	(362,323)
Total financial liabilities	-	-	(362,323)	(362,323)

The fair value of achievement notes represents ATBIS's proportionate share of unrealized loss included in net loss and the total change in unrealized loss during the year with respect to the liability held at March 31, 2010 (note 15).

NOTE 13 CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBIS's ability to operate as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives; and
- To maintain adequate risk adjusted capital as required by the MFDA.

Margin requirements in respect of outstanding trades and or working capital requirements cause regulatory capital requirements to fluctuate on a daily basis. Compliance with MFDA 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 MFDA's early warning tests. The Company has met the minimum capital requirements throughout the year. As at March 31, RAC was $4,406,632 (2009: $5,432,977).

The Company's capital management strategy is to maintain at all times working capital sufficient in size to satisfy the Alberta Securities Commission's minimum Net Free Capital requirements. The Company has met the minimum Net Free Capital requirement throughout the year.

NOTE 14 EMPLOYEE FUTURE BENEFITS

ATBIS 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, 2010, expenses related to defined contribution plan were $265,040 (2009: $214,564).

NOTE 15 ACHIEVEMENT NOTES

During the year ATB offered to sell 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 commencing this fiscal year.

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 will be used to establish the initial purchase price of the notes and the change in fair value period to period up until maturity.

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 on other deposits 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.

ATBIS records its proportionate share of the fair market value adjustments under other liabilities on the balance sheet. An expense of $362,323 was recorded as salaries and employee benefit expense to reflect the increase in the liability to ATBIS employees holding notes, based on the valuation of certain ATB subsidiaries. As at March 31, 2010, the total liability relative to these notes was $362,323.

NOTE 16 COMPARATIVE FIGURES

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

NOTE 17 SUBSEQUENT EVENT

The Board of Directors has approved the merger of ATBSI and ATBIS. Management intends to proceed with the merger of the companies upon receipt of approvals from the respective regulatory bodies of ATBSI and ATBIS, being Investment Industry Regulatory Organization of Canada and MFDA respectively.

ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2010

AUDITOR'S REPORT

To the Board of Directors of ATB Securities Inc.

I have audited the balance sheets of ATB Securities Inc. as at March 31, 2010, and 2009 and the statements of operations and comprehensive loss, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 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.

Edmonton, Alberta
June 16, 2010

[Original signed by Merwan N. Saher, CA]
Auditor General

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheet

As at March 31, 2010

	($) 2010	2009
ASSETS		
Current assets		
Cash	$ 1,800,250	$ 18,191,548
Short term investments (Note 12)	23,497,432	11,000,216
Clients' cash held in trust	19,546,670	18,981,578
Due from clients	10,073,446	2,960,481
Due from brokers and dealers	7,746,771	6,437,432
Client fees receivable	1,058,450	779,990
Trailer fees receivable	1,275,648	932,991
Due from affiliates (Note 5)	229,110	71,644
Prepaid expenses	157,313	160,732
Inventory	19,774	-
	65,404,864	59,516,612
Other assests (Note 6)		
Equipment	10,501	-
Software and other intangibles	4,003,469	2,690,349
	4,013,970	2,690,349
	$ 69,418,834	$ 62,206,961
LIABILITIES		
Current liabilities		
Due to clients	$ 30,561,062	$ 39,383,719
Due to brokers and dealers	15,520,733	6,965,670
Accrued liabilities	3,154,651	1,786,372
Variable compensation payable	538,195	434,203
Due to ATB (Note 7)	2,396,446	1,719,359
Due to affiliates (Note 5)	197,156	50,088
Unearned revenue	52,988	46,163
Current portion of deferred variable pay	35,663	68,159
	52,456,894	50,453,733
Other liabilities		
Deferred variable pay	154,183	121,833
Achievement notes payable (Note 15)	582,916	-
	53,193,993	50,575,566
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	43,000,000	31,000,000
Deficit	(26,775,159)	(19,368,605)
	16,224,841	11,631,395
	$ 69,418,834	$ 62,206,961

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

Approved by the Board of Directors

Dave Mowat
Chairman of the Board and Chief Executive Officer

Michael Frederick
Chief Financial Officer

Statement of Deficit

For the year ended March 31, 2010

	($) 2010	2009
Balance - Beginning of year	$ 19,368,605	$ 15,083,900
Net loss for the year	7,406,554	4,284,705
Balance - End of year	$ 26,775,159	$ 19,368,605

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2010

	($) 2010	2009
Revenue (Note 9)		
Mutual fund commissions	13,749,519	11,607,179
Other commissions	2,285,167	2,085,650
Securities commissions	960,642	1,083,093
Client fees	3,856,651	3,700,449
Interest revenue	181,098	691,018
Client referral fees	1,884,137	1,383,268
Other revenue	118,850	31,972
	23,036,064	20,582,629
Administration and Selling expenses (Note 9)		
Variable compensation expense	10,766,830	8,445,400
Salaries and employee benefits (Note 14 and 15)	9,887,304	7,508,137
Processing fees	3,641,474	3,054,690
Other expenses	3,571,045	3,510,536
Professional fees	1,872,887	1,855,694
Amortization expense	691,051	478,098
Interest expense	12,027	14,779
	30,442,618	24,867,334
Net loss and comprehensive loss for the year	7,406,554	4,284,705

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

Statement of Cash Flows

For the year ended March 31, 2010

	($) 2010	2009
Cash provided from (used in)		
Operating activities		
Net loss for the year	$ (7,406,554)	$ (4,284,705)
Items not affecting cash		
Amortization of equipment	3,103	-
Amortization of software and other intangibles	687,948	478,098
	(6,715,503)	(3,806,607)
Net change in non-cash working capital items		
Cash (paid to) clients and brokers/dealers	(9,254,990)	(684,172)
(Increase) decrease in client fees receivable	(278,460)	282,224
(Increase) in trailer fees receivable	(342,657)	(520,631)
Decrease (increase) in prepaid expenses	3,419	(60,625)
(Increase) in inventory	(19,774)	-
Increase in accrued liabilities	1,368,279	169,007
Net (decrease) in due to (from) affiliates	(10,398)	591,242
Increase (decrease) in variable compensation payable	103,992	34,186
Increase (decrease) in unearned revenue	6,825	8,451
(Decrease) in deferred variable pay	(146)	(125,238)
	(8,423,910)	(305,556)
Net change in non-current items		
Increase in achievement notes payable	582,916	-
	(14,556,497)	(4,112,163)
Investing activities		
(Increase) in short term investments	(12,497,216)	(11,000,216)
Investment of capital assets	(2,014,672)	(948,991)
	(14,511,888)	(11,949,207)
Financing activities		
Issuance of share capital	12,000,000	7,000,000
Increase (decrease) in due to ATB	677,087	(1,276)
	12,677,087	6,998,724
Net change in cash	(16,391,298)	(9,062,646)
Cash - Beginning of year	18,191,548	27,254,194
Cash - End of year	$ 1,800,250	$ 18,191,548
Supplementary information		
Interest paid	$ 12,027	$ 14,779
Interest received	$ 181,098	$ 691,018

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

Notes to the Financial Statements

March 31, 2010

NOTE 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”). For the year ended March 31, 2010, ATBSI reported a net loss of $7,406,554, negative cash flow from operating activities of $14,556,497 and an accumulated deficit of $26,775,159. ATBSI has received $12,000,000 in capital support from ATB through share capital issuance and the continuing operations of ATBSI remains dependent upon ATB’s ongoing financial support.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below:

a) 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.

b) REVENUE RECOGNITION

ATBSI earns its revenue from third party mutual funds and affiliates (Note 9). 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 client fees, 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 fees is paid by ATB to ATBSI based on the average 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.

c) CASH

Cash consist of cash on deposit held with ATB.

d) SHORT TERM INVESTMENTS

Short term investments consist of treasury bills with maturity dates of less than one year.

Note 2 (continued)

e) CLIENTS' CASH HELD IN TRUST

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and Tax Free Savings Accounts (TFSAs) segregated in trust accounts with Canadian Western Trust. Corresponding liabilities are included in Due to clients. Client balances are reported on a trade date basis.

f) 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.

g) SOFTWARE AND OTHER INTANGIBLES

Computer software and system development costs are amortized on a straight-line basis over the estimated useful life of between 3 and 5 years. Amortization commences in the year the system development is completed.

h) 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 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.

i) 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.

j) FINANCIAL INSTRUMENTS

ATBSI has made the following designations:

- Cash, short term investments and clients' cash held in trust and inventory are classified as financial assets held for trading and measured at fair value.
- 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.

Note 2 (continued)

k) 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.

NOTE 3 ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

a) SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

On April 1, 2009, ATBSI adopted a new accounting standard of the Canadian Institute of Chartered Accountants (CICA) entitled "Goodwill and Intangible Assets". This new standard establishes the criteria for recognition, measurement, presentation, and disclosure of goodwill and intangible assets and replaced CICA Handbook Section 3062 "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs".

Although the adoption of this standard did not result in a change in the recognition, it did require that intangible asset relating to software be reclassified from "Capital assets" to "Software and other intangibles" on the Balance Sheet.

b) SECTION 3862 – AMENDMENT TO FINANCIAL INSTRUMENT DISCLOSURE

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance fair value and liquidity risk disclosure. The amendment includes a requirement to classify financial instruments reported at fair value using a three-tier hierarchy that reflects the significance of the inputs used in making the measurement. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and,
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The amendments of this section were adopted prospectively effective for financial statements for the year ended March 31, 2010. The amendments had no impact on ATBSI's results or financial position as they pertain to disclosure only. The classification of investments within the fair value hierarchy is detailed in Note 12.

c) SECTION 3855 AMENDMENT TO FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT

On August 20, 2009, the CICA issued various amendments to Section 3855, Financial Instruments – Recognition and Measurement which reduce differences with International Financial Reporting Standards.

The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008 with retrospective application to the beginning of the fiscal year. It is permitted, but not required, to apply these amendments to the interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements are issued on or after August 20, 2009. ATBSI adopted these amendments in the current fiscal year.

The initial application of these amendments did not impact ATBSI's financial statements.

NOTE 4 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 is currently evaluating the effects of all current and pending pronouncements of the IASB on the Company and is developing a plan for implementation in conjunction with ATB.

NOTE 5 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, ATB Investment Services Inc. ("ATBIS") and ATBIA may pay for certain expenses on behalf of ATBSI. Alternatively, ATBSI may pay for certain expenses on behalf of ATBIM, ATBIS and ATBIA. These amounts are duly recorded as payables and receivables in each of ATBSI's, ATBIM's, ATBIS'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:

($)

	2010	2009
Due from ATBIM	$ 229,110	$ 71,644
Due (to) from ATBIA	(13,578)	(13,858)
Due (to) ATBIS	(183,578)	(36,230)
	$ 31,954	$ 21,556

NOTE 6 OTHER ASSETS

($)

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Equipment	13,604	(3,103)	10,501	-
Software and other intangibles				
Computer software	$ 4,006,288	$ (1,417,229)	$ 2,589,059	$ 1,989,290
System development costs	1,414,410	-	1,414,410	701,059
	$ 5,420,698	$ (1,417,229)	$ 4,003,469	$ 2,690,349
	$ 5,434,302	$ (1,420,332)	$ 4,013,970	$ 2,690,349

Amortization expense charged to the Statement of Operations and Comprehensive Loss for the year ended March 31, 2010, in respect of Equipment was $3,103 (2009: $ nil) and Software and other intangibles was $687,948 (2009: $478,098).

NOTE 7 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:

	($)	
	2010	2009
Due to ATB	$ 2,396,446	$ 1,719,359

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2010 was 2.25% (2009: 2.50%).

NOTE 8 SHARE CAPITAL

Authorized

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding

	($)	
	2010	2009
Class A common shares #	42,995,100	30,995,100
Amount	$ 43,000,000	$ 31,000,000

During the year, the Company issued 12,000,000 class A common shares for cash proceeds of $12,000,000.

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBSI earns income in the form of trailer fees, and interest revenue and other income from ATB, ATBIA and ATBIM. ATB also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB.

Note 9 (continued)

A summary of these transactions for the years ended March 31 is as follows:

Related party	Transactions	Recorded as	2010 ($)	2009 ($)
	Revenue			
ATBIM	Trailer fees	Mutual fund commissions	$ 8,584,865	$ 7,731,209
ATBIM	Referral fees	Client referral fees	1,297,457	902,427
ATBIM	Transaction fees	Client referral fees	401,640	358,200
ATBIA	Insurance referrals	Client referral fees	185,040	122,641
ATB	GIC referral fees	Other commissions	2,285,167	2,085,650
ATB	Interest income	Interest revenue	18,431	489,617
			$ 12,772,600	$ 11,689,744
	Administration and selling expenses			
ATB	Processing	Processing fees	$ 3,641,474	$ 3,054,690
ATB	Information technology, rent and marketing	Other expenses	1,898,057	1,732,804
ATB	Professional services	Professional fees	732,932	579,341
			$ 6,272,463	$ 5,366,835
	Interest expense			
ATB	Other interest expense	Interest expense	$ 12,027	$ 14,779

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.

NOTE 10 COMMITMENTS

ATBSI is committed to payments under services agreements for data processing services, software licenses, support and maintenance services for various projects through to March, 2012 in the amount of $1,239,787.

Year	$
2011	1,160,587
2012	79,200
	1,239,787

NOTE 11 FINANCIAL INSTRUMENTS

ATBSI's financial instruments consist of cash, short term investments, clients' cash held in trust, due from clients, due (to) from clients, due (to) from brokers and dealers, client fees receivable, trailer fees receivable, inventory, due (to) from affiliates, due to clients, 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 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.

Note 11 (continued)

FAIR VALUE

The fair value of 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 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. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2010, US dollar denominated cash amounted to US$633,235, due from clients amounted to US$286,984, due from brokers and dealers amounted to US$41,248, accrued liabilities amounted to US$36,399, due to clients amounted to US$563,872 and due to brokers and dealers amounted to US$23,178. A $0.01 change in US exchange rates would result in a foreign exchange gain or loss of approximately $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, 2010, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $24,000.

As at March 31, 2010 ATBSI held $23,497,432 (2009: $11,000,216) in highly liquid treasury bills. At March 31, 2010 the treasury bills were earning a yield of 0.20% and 0.25% until they mature on April 15, 2010 and May 13, 2010 respectively.

As at March 31, 2010, if interest rates were to change by 25bps, the change in interest income is approximately $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.

As at March 31, 2010, if prices of securities on the stock exchanges were to change by 10%, the change in inventory is approximately $1,997.

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 $65,227,777, 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.

Note 11 (continued)

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 and 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.

NOTE 12 FAIR VALUE MEASUREMENTS

The following is a summary of the ATBSI's financial instruments within the fair value hierarchy as at March 31, 2010:

	Financial instruments at fair value as at March 31, 2010			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observalbe inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	$	$	$	$
Treasury bills	-	23,497,432	-	23,497,432
Equities	19,774		-	19,774
Total financial assets	19,774	23,497,432	-	23,517,206
Achievement notes	-	-	(582,916)	(582,916)
Total financial liabilities	-	-	(582,916)	(518,916)

The fair value of achievement notes represents ATBSI's proportionate share of unrealized loss included in net loss and the total change in unrealized loss during the year with respect to the liability held at March 31, 2010 (note 15).

NOTE 13 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 outstanding 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. As at March 31, RAC was $9,183,000 (2009: $5,083,000).

NOTE 14 EMPLOYEE FUTURE BENEFITS

ATBSI provides future benefits to current and past employees through a defined contribution plan. 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, 2010, expenses related to the defined contribution plan provision were $1,439,497 (2009: $906,262).

NOTE 15 ACHIEVEMENT NOTES

During the year ATB offered to sell 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 commencing this fiscal year.

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 will be used to establish the initial purchase price of the notes and the change in fair value period to period up until maturity. 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 on other deposits 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 $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, 2010, the total liability relative to these notes was $582,916.

NOTE 16 CREDIT FACILITY

During the year, the Company entered into 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 2.00% at March 31, 2010. No amounts have been drawn on the facility at March 31, 2010.

NOTE 17 COMPARITIVE FIGURES

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

NOTE 18 SUBSEQUENT EVENT

The Board of Directors has approved the merger of ATBSI and ATBIS. Management intends to proceed with the merger of the companies upon receipt of approvals from the respective regulatory bodies of ATBSI and ATBIS, being IIROC and Mutual Fund Dealers Association of Canada respectively.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Year Ended December 31, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheets of the Credit Union Deposit Guarantee Corporation as at December 31, 2009 and 2008 and the statements of income and equity, comprehensive income and accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 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

Edmonton, Alberta
March 4, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheets

As at December 31

	($ thousands) 2009	($ thousands) 2008
Assets		
Cash	$ 23,106	$ 21,952
Investments (Note 3)	129,893	120,558
Accrued interest receivable	707	766
Income taxes receivable	-	204
Due from credit unions	4,537	4,277
Prepaids	53	37
Property and equipment (Note 4)	217	259
	$ 158,513	$ 148,053
Liabilities		
Accounts payable and accrued liabilities	$ 759	$ 761
Accrual for financial assistance (Note 5)	1,800	1,800
Deferred revenue	32	60
Income taxes payable	43	-
Future income taxes liability	572	561
Special contribution payable (Note 6)	17,625	16,700
Long-term unclaimed credit union balances	731	744
	21,562	20,626
Commitments and contingencies (Note 7)		
Equity		
Deposit Guarantee Fund	134,760	125,269
Accumulated Other Comprehensive Income	2,191	2,158
	136,951	127,427
	$ 158,513	$ 148,053

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

Approved by the Board:

Allister McPherson, Director

Loraine Oxley, Director

Statements of Income and Equity

For the Years ended December 31

($ thousands)

	2009		2008
	Budget	Actual	Actual
	(Note 12)		
Deposit Guarantee Fund			
Revenues:			
Deposit guarantee assessments	$ 27,503	$ 26,945	$ 25,027
Investment income (Note 3)	6,040	6,296	4,774
	33,543	33,241	29,801
Expenses:			
Provision for (recovery of) financial assistance (Note 5)	488	(11)	782
Special contribution (Note 6)	18,450	17,625	16,700
Administration expenses (Schedule 1)	6,506	6,093	5,568
	25,444	23,707	23,050
Income before income taxes	8,099	9,534	6,751
Income taxes (Note 9)	(96)	43	(92)
Net income from continuing operations for the year	8,195	9,491	6,843
Net income from discontinued operations (Note 8)	-	-	485
Equity at beginning of year	126,335	125,269	119,804
Equity distribution, discontinued operations (Note 8)	-	$ -	(1,863)
Equity at end of year	$ 134,530	$ 134,760	$ 125,269

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

Statements of Comprehensive Income and Accumulated Other Comprehensive Income

For the Years ended December 31

	($ thousands)		
	2009		2008
	Budget	Actual	Actual
	(Note 12)		
Net income			
Deposit Guarantee Fund	$ 8,195	$ 9,491	$ 6,843
Discontinued Operations (Note 8)	-	-	485
	8,195	9,491	7,328
Other comprehensive income			
Unrealized gains on available-for-sale financial instruments, net of future income tax benefit of $194 (2008: $701)	-	730	2,830
Reclassification to net income, net of future income tax benefit of $185 (2008: $ 69)	-	(697)	259
	-	33	3,089
Comprehensive income	$ 8,195	$ 9,524	$ 10,417
Accumulated other comprehensive income (loss) at beginning of year	$ -	$ 2,158	$ (931)
Other comprehensive income, net of future income tax of $9 (2008: $770)	-	33	3,089
Accumulated other comprehensive income at end of year	$ -	$ 2,191	$ 2,158

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

Statements of Cash Flows

For the Years Ended December 31

	2009 Budget (Note 12)	2009 Actual	2008 Actual
	($ thousands)		
Operating activities:			
Assessments received	$ 27,113	$ 26,685	$ 24,706
Investment income received	5,989	5,756	4,801
Financial assistance (paid) recovered	(488)	11	18
Interest and bank charges paid	(13)	(3)	(9)
Income taxes paid (recovered)	(289)	205	22
Paid to suppliers and employees	(6,321)	(5,986)	(5,322)
Special contribution paid	(16,880)	(16,700)	(15,008)
Cash flows from continuing operating activities	9,111	9,968	9,208
Cash flows from (to) discontinued operating activities (Note 8)	$ -	$ -	(655)
Cash flows from operating activities	9,111	9,968	8,553
Investing activities:			
Purchase of investments, net	(8,914)	(8,693)	(571)
Purchase of property and equipment	(197)	(121)	(172)
Cash flows used in investing activities	(9,111)	(8,814)	(743)
Financing activities:			
Distribution of Master Bond Fund (Note 8)	-	-	(1,863)
Cash flows used in financing activities	-	-	(1,863)
Cash inflow	-	1,154	5,947
Cash at beginning of year	13,005	21,952	16,005
Cash at end of year	$ 13,005	$ 23,106	$ 21,952

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, 2009, credit unions in Alberta held deposits including accrued interest totalling $16.0 billion (2008: $15.1 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, administrative 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, allowance for loan impairment, 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, 2009, securities held in the CCITF have a rate of return of 1.4% per annum (2008: 3.5% per annum).

d) INVESTMENTS AND INVESTMENT INCOME

The Corporation's investments policy permits investments in fixed income securities and pooled funds. Investment assets are independently managed on a segregated basis by Alberta Investment Management Corporation (AIMCo), the Corporation's investment manager and in AIMCo pooled funds. The Corporation classified all investments in fixed income securities and pooled funds as available for sale (AFS).

Note 2 (continued)

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 pooled funds are classified as available-for-sale.

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:

i) 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.

ii) The Corporation recognizes financial assistance as a result of indemnity agreements that we have entered into with specific credit unions due to the outcomes described in Note 1.

iii) An 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 have been classified either based on the type of instrument or the Corporation's intention regarding the instrument, as described below. Any new financial instruments will be classified on inception. This classification determines how financial instruments are accounted for under the standards.

Note 2 (continued)

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).

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

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.

Note 2 (continued)

i) Changes in accounting policies

In 2009, the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments - Disclosures, was amended to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses to measure the fair values of its financial instruments for fiscal years ending after September 30, 2009. The new requirements are for disclosure only and did not impact financial results of the Corporation. This enhanced disclosure is provided in Note 3 of these financial statements.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 recommends an entity take into account its own credit risk and that of the relevant counterparty(ies) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This did not significantly impact the Corporation's financial position or results because we restrict our transactions to counterparties with good credit ratings (A plus or greater).

j) FUTURE CHANGE IN ACCOUNTING POLICY

The basis for financial reporting by Canadian publicly accountable enterprises will move from Canadian Generally Accepted Accounting Principles ("GAAP") to International Financial Reporting Standards ("IFRSs") for fiscal year-ends beginning on or after January 1, 2011. As such, we will be required to prepare our December 31, 2011 financial statements including comparative information in accordance with IFRSs. This change is part of a worldwide transition intended to facilitate global capital flows and greater clarity and consistency in financial reporting in the global marketplace. The Corporation participates in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and has completed an analysis of the expected areas of impact on the Corporation. Furthermore, the Corporation completed the development of a detailed implementation plan; and are on target with our internal deadlines. A formal project governance structure is in place which includes a steering committee consisting of the Vice Presidents from each department, and it receives regular updates on the IFRSs initiative.

IFRS 1, First-time adoption of IFRSs, establishes the procedures that entities need to follow when initially adopting IFRSs. IFRS 1 permits an entity to take certain optional elective exemptions to avoid retrospective application of IFRSs in specific areas (i.e. restatement of the comparative period as if the entity has always applied IFRSs). The Corporation documented the decisions made with respect to each of the available elections in December 2009. The Corporation does not anticipate significant material differences between our current accounting policies and IFRSs.

NOTE 3 INVESTMENTS

The Corporation has classified all investments, including pooled funds, 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:

	2009 Fair Value [1]	2009 Cost	2008 Fair Value [1]	2008 Cost
	(thousands of dollars)		*(thousands of dollars)*	
Directly held:				
Securities issued or guaranteed by:				
Canada	$ 30,460	$ 30,077	$ 37,738	$ 34,666
Provinces	39,372	37,905	24,021	22,924
Financial institutions	15,559	14,565	14,840	14,578
Asset backed securities and other [2]	18,933	18,846	20,252	20,914
Pooled funds:				
Universal Fixed Income Pool	25,569	25,726	23,707	24,746
Total	**$ 129,893**	**$ 127,119**	**$ 120,558**	**$ 117,828**

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 pooled funds 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.

As at December 31, 2009 securities directly held (excludes the Universal Fixed Income Pool) have an average effective yield of 3.2% based on fair value (2008: 3.4%). These securities have the following term structure: under one year: 6% (2008: 2%), over one year and under five years: 48% (2008: 45%), over five years and under ten years: 46% (2008: 53%).

The Universal Fixed Income 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. As at December 31, 2009, securities held by the Pool have an average effective market yield of 5.1% per annum (2008: 6.0% per annum) and the following term structure based on principal amount: under one year: 4% (2008: 5%); one to five years: 34% (2008: 34%); five to ten years: 32% (2008: 29%); ten to twenty years: 15% (2008: 15%); and over twenty years: 15% (2008: 17%).

Note 3 (continued)

Included in the Corporation's investments in the Universal Fixed Income 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 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. Included in the pooled funds are derivative contracts with a notional amount of $27,004,000 (2008: $37,022,000) and a net positive fair value of $44,000 (2008: negative $600,000). The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contract. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The pooled fund attempts to limit its credit exposure by dealing with counter-parties who have a good credit standing (A plus or greater.)

b) FAIR VALUE HIERARCHY

The table below 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.

	Level One	Level Two	Level Three	Total
Investment:				
Fixed income securities, directly held	$ 104,209	$ -	$ 115	$ 104,324
Universal Fixed Income Pool	21,060	2,177	2,332	25,569
2009 - Total	**125,269**	**2,177**	**2,447**	**129,893**
- Percent	96%	2%	2%	100%
2008 - Total	116,561	2,010	1,987	120,558
- Percent	97%	2%	1%	100%
Increase during the year	**$ 8,708**	**$ 167**	**$ 460**	**$ 9,335**

c) INVESTMENT INCOME

Investment income is as follows:

	($ thousands) 2009	2008
Interest and dividend income	$ 5,172	$ 5,613
Net gain on sale of investments	1,185	233
Write down on investments	(302)	(562)
Derivative income (loss)	241	(510)
Total	**$ 6,296**	**$ 4,774**

Note 3 (continued)

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 directly held 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 independent fund manager (AIMCo) has the authority to use any of the following asset classes in the Universal Fixed Income Pool, when it is deemed appropriate and within specified limits:

a) Bonds, debentures, mortgages, annuities, notes or other debt instruments of governments, government agencies, or corporations: rated AA or better.

b) Debt securities of private companies: rated A or better.

c) Private placements (either as individual investments or as an investment in a pooled fund managed by external managers): rated BBB or better.

d) Warrants, options, financial or currency futures, forwards, or other instruments designed to provide additional income or hedging opportunities or as part of a structure but not as vehicles for speculation.

e) Guaranteed investment contracts or equivalent of insurance companies, trust companies, banks or other eligible issuers.

f) Term deposits or similar instruments of trust companies or banks.

g) Cash or money market securities issued by governments or corporations.

h) Interest rate swaps, asset swaps, floating rate notes, index swaps, cross currency swaps.

i) Mortgage backed securities, asset backed securities, real return bonds.

j) Credit linked notes, credit default swaps, special purpose trusts.

k) Fully hedged foreign bonds.

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.

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.

Note 3 (continued)

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 $6,181,000 (2008: $5,660,000) 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)

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 443	$ 352	$ 91	$ 98
Computer equipment	197	154	43	39
Leasehold improvements	220	197	23	42
Computer software	507	447	60	80
Total	$ 1,367	$ 1,150	$ 217	$ 259

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.

Note 5 (continued)

	($ thousands) 2009	2008
Accrual for financial assistance:		
Balance at beginning of year	$ 1,800	$ 1,000
Change in accrual for financial assistance	-	800
Balance at end of year	$ 1,800	$ 1,800
Provision for (recovery of) financial assistance:		
Change in accrual for financial assistance	$ -	$ 800
Financial assistance payments	$ -	$ -
Loan loss recoveries	(11)	(18)
Provision for (recovery of) financial assistance	$ (11)	$ 782

NOTE 6 SPECIAL CONTRIBUTION PAYABLE

	($ thousands) 2009	2008
Balance at beginning of year	$ 16,700	$ 15,008
Payment of previous year's special contribution	(16,700)	(15,008)
Special contribution for the year	17,625	16,700
Balance at end of year	$ 17,625	$ 16,700

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 non-cancellable operating lease for business premises until the lease expires in February 2011 totalling $140,000 (2008: $259,000).

The following amounts represent minimum payments over the next two years:

2010	120,000
2011	20,000

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 DISCONTINUED OPERATIONS

On November 1, 2008 the Corporation completed the transfer of the administration of the Master Bond insurance policy to The CUMIS Group Limited and Credit Union Central Alberta Limited as the master policy holder. As a result of the transfer of responsibilities, the balance in the Master Bond Fund was redistributed to Alberta credit unions December 15, 2008 based on prorata share of premiums paid over the past five years. An independent review was conducted to determine the effectiveness and appropriateness of our role as the administrator and master policy holder of the insurance coverage for Alberta credit unions. It was concluded that this role was not a regulatory function and would be more effectively carried out by existing service providers to the credit unions.

Net income of the Master Bond Fund presented as discontinued operations is composed of the following:

	2009	2008
Revenues:		
Insurance assessments	$ -	$ 1,299
Investment income	-	73
	-	1,372
Expenses:		
Insurance premiums	-	921
Administration expenses (Schedule 1)	-	100
Insurance claims	-	(134)
	-	887
Net income (loss) from discontinued operations	-	485
Equity at beginning of year	-	1,378
Equity distribution	-	(1,863)
Equity at end of year	$ -	$ -

NOTE 9 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 21.00% (2008: 21.00%). 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:

Note 9 (continued)

	($ thousands) 2009		($ thousands) 2008	
Expected income tax expense on pre-tax net income at the statutory rate	$	2,002	$	1,418
Add (deduct) tax effect of:				
Non-taxable assessments		(5,658)		(5,256)
Non-deductible special contribution		3,701		3,507
Non-taxable provision for financial assistance		(1)		164
Other		(1)		75
Income taxes paid (recovered)	$	43	$	(92)

At December 31, 2009 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $51,000 (2008: $58,000). The resulting future income taxes recoverable are reflected in the balance sheet. The Corporation's future effective income tax rate is 21.00% (2008: $21.00%).

	($ thousands) 2009		($ thousands) 2008	
Current income taxes	$	42	$	(105)
Future income taxes		1		13
Income taxes paid (recovered)	$	43	$	(92)

NOTE 10 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 based on a review of capital standards set by other deposit guarantee organizations in Canada. In accordance with this policy the Corporation will maintain the Deposit Guarantee Fund, including any amount established as an accrual for financial assistance, at a minimum of 0.80% of total credit union deposits and borrowings with a target of 1.0%. The actual amount of capital at December 31, 2009 is 0.85% 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 11 DIRECTORS' AND MANAGEMENT REMUNERATION

($ thousands)

	2009				2008
	Director's Fees or Salary [1]	Other Cash Benefits [2]	Other Non Cash Benefits [3]	Total	Total
Chair [4,5]	$ 24	$ -	$ -	$ 24	$ 24
Board Members [4,5]	120	$ -	$ -	120	112
Current senior management:					
President and Chief Executive Officer	257	88	30	375	398
Vice President, Finance and Corporate Sevices [6]	182	46	22	250	301
Vice President, Credit and Risk Management	181	48	19	248	246
Vice President, Strategic Planning and Information Services	162	42	18	222	220

1 Salary includes regular base pay.

2 Other cash benefits include bonus and perquisite amounts.

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 $4,000 (2008: $2,000) and $24,000 (2008: $24,000) respectively. The average amount paid to directors was $18,000 (2008: $14,000).

6 The 2008 amount included payout of accummulated vacation of $51,328.

NOTE 12 2009 BUDGET

The 2009 budget was approved by the Board of Directors on December 2, 2008.

NOTE 13 COMPARATIVE FIGURES

The 2008 figures have been reclassified where necessary to conform to 2009 presentation.

SCHEDULE OF ADMINISTRATION EXPENSES

Schedule 1

For the Years ended December 31

($ thousands)

	2009		2008
	Budget	Actual	Actual
Deposit Guarantee Fund			
Salaries and benefits	$ 4,763	$ 4,616	$ 4,272
Professional fees	340	276	338
Rental charges	217	253	200
Office	266	215	197
Other	356	216	189
Staff travel	213	170	176
Board and committee fees	127	144	136
Amortization	157	163	115
Board and committee expenses	67	40	45
	6,506	6,093	5,668
Allocation to Master Bond Fund (Note 8)	-	-	(100)
	$ 6,506	$ 6,093	$ 5,568

N.A. PROPERTIES (1994) LTD.

Financial Statements

March 31, 2010

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholder of N.A. Properties (1994) Ltd.

I have audited the balance sheets of N.A. Properties (1994) Ltd. as at March 31, 2010 and 2009 and the statements of operations, and deficit for the years then ended. These financial statements are the responsibility of the Company's 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 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

Edmonton, Alberta
July 8, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance sheets

As at March 31

	($ thousands) 2010		2009	
Assets				
Cash (Note 4)	$	2,884	$	2,867
Note receivable (Note 5)		36		29
	$	2,920	$	2,896
Liabilities				
Obligations under indemnities and commitments (Note 6)	$	521	$	625
Shareholder's Equity				
Share capital (Note 7)		5,769		5,769
Deficit		(3,370)		(3,498)
		2,399		2,271
	$	2,920	$	2,896

The accompanying notes are part of these financial statements.

On Behalf of the Board:

Rod Matheson
Sole Director

Statements of Operations and Deficit

Years ended March 31

	($ thousands) 2010		2009	
Revenue				
Interest and other	$	33	$	90
Expense				
General and administrative		9		-
Operating income before provision		24		90
Recovery of (provision for) obligations under indemnities and commitments (Note 6)		104		95
Excess (deficiency) of revenue over expense for the year		128		185
Deficit, beginning of year		(3,498)		(3,683)
Deficit, end of year	$	(3,370)	$	(3,498)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Years ended March 31

($ thousands of dollars)

NOTE 1 AUTHORITY

N.A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the Business Corporation Act, Statutes of Alberta 2000, Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income tax.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of its remaining assets. The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past three years.

The Company also manages indemnities described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

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, 2010, securities held by the Fund have a time-weighted return of 1.0% per annum (March 31, 2009: 3.0% 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, 2010 is $36 (2009: $29). 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, 2010 is estimated to be $92 (2009: $87) 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 $1,158 at March 31, 2010 (2009: $1,307). 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)	
	2010	**2009**
Beginning balance	$ 625	$ 720
(Recovery of) provision for obligations under indemnities and commitments	(104)	(95)
Ending balance	$ 521	$ 625

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)	
		2010	2009
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

NOTE 8 CONTINGENCIES

The Company has one lawsuit filed by plaintiffs outstanding. Management considers the liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

NOTE 9 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, 2010.

NOTE 10 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2010 and 2009.

NOTE 11 BUDGET

The Company's annual budget appears in the 2009-10 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.

Commercial
Crown-controlled
Corporations

GAINERS INC.

Consolidated Financial Statements

September 30, 2009

AUDITOR'S REPORT

To the Shareholder of Gainers

I have audited the consolidated balance sheets of the Gainers Inc. as at September 30, 2009 and 2008 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, 2009 and 2008 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

Edmonton, Alberta
July 8, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Consolidated Balance Sheets

As at September 30

	($ thousands) 2009	2008
Assets		
Cash	$ 2	$ 2
Investment in and amount due from former affiliate (Note 2)	-	-
	$ 2	$ 2
Liabilities		
Accounts payable and accrued liabilities	$ -	$ 27
Principal and interest on prior years income taxes (Note 3)	11,334	11,334
Long-term debt (Note 4)	193,093	193,037
	204,427	204,398
Shareholder's Deficiency		
Share capital (Note 6)	1	1
Deficit	(204,426)	(204,397)
	(204,425)	(204,396)
	$ 2	$ 2

Approved by the Board of Directors

Dan Harrington, Director

The accompanying notes are part of these consolidated financial statements.

Consolidated Statements of Operations and Deficit

Years ended September 30

	($ thousands) 2009	2008
Expenses		
Interest on prior years' income taxes	$ -	$ -
Legal expenses	$ 25	-
General and administrative	4	4
Net loss for the year	(29)	(4)
Deficit, beginning of year	(204,397)	(204,393)
Deficit, end of year	$ (204,426)	$ (204,397)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended September 30

	($ thousands) 2009	2008
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (29)	$ (4)
Net change in non-cash working capital items	(27)	(86)
	(56)	(90)
Financing activities		
Proceeds from long-term debt	56	90
Change in cash	-	-
Cash, beginning of year	2	2
Cash, end of year	$ 2	$ 2

The accompanying notes are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended 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 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 $32. These non-capital losses expire between 2010 and 2029.

NOTE 4 LONG-TERM DEBT

	($ thousands)	
	2009	**2008**
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	13,794	13,738
Accrued interest	34,491	34,491
	$ 193,093	$ 193,037

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, 2009 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.

Note 4 (continued)

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)	
	2009	**2008**
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

Other Information

Supplementary Information Required by Legislation or by Direction of the Minister of Finance and Enterprise

(The Following Reports Are Unaudited)

- Statement of Remissions, Compromises and Write-offs
- Statement of Borrowings Made under Section 56(1) of the Financial Administration Act
- Statement of the Amount of the Debt of the Crown for which Securities were Pledged
- Statement of Guarantees and Indemnities
- Financial Statements of Pension Plans

Appendix: Performance Measures Methodology

STATEMENT OF REMISSIONS, COMPROMISES AND WRITE-OFFS

For the year ended March 31, 2010

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	$ 184,696
Compromises	
Corporate Income Tax	90,244
Write-offs	
Department of Finance and Enterprise	
Accounts Receivable	
Corporate Income Tax	338,045
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	23,325
ATB Financial	
Loans and accounts receivable	36,158,000
	36,519,370
Total Remissions, compromises & write-offs	$ 36,794,310

STATEMENT OF BORROWINGS MADE UNDER SECTION 56(1) OF THE FINANCIAL ADMINISTRATION ACT

For the year ended March 31, 2010

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 4,287,457,000	$ 4,287,116,023
Alberta Capital Bonds	78,809,339	78,336,483
Debentures	2,598,066,000	2,575,562,000
	$ 6,964,332,339	$ 6,941,014,506

STATEMENT OF THE AMOUNT OF DEBT OF THE CROWN FOR WHICH SECURITIES WERE PLEDGED

For the year ended March 31, 2010

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 2009-10 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act was $ nil.*

STATEMENT OF GUARANTEES AND INDEMNITIES

For the year ended March 31, 2010

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, 2010, 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	$ 23,325	$ -

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise and the Local Authorities Pension Plan Board of Trustees

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Local Authorities Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended. These financial statements are the responsibility of the Plan's 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 financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]
Acting Auditor General

Edmonton, Alberta
April 15, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31

	($ thousands) 2009	2008
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 15,494,381	$ 13,493,066
Contributions receivable (Note 6)	40,920	41,467
Receivable for investment sales	75	-
Accrued investment income and accounts receivable	6,138	1,542
	15,541,514	13,536,075
Liabilities		
Accounts payable	10,603	6,346
Liabilities for investment purchases	163,425	12,500
	174,028	18,846
Net assets available for benefits	15,367,486	13,517,229
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	19,366,100	17,931,200
Deficiency	$ (3,998,614)	$ (4,413,971)

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

Statements of Changes in Net Assets Available For Benefits

Years ended December 31

		($ thousands)		
		2009		2008
Increase in assets				
Contributions (Note 8)	$	1,313,955	$	1,070,727
Net investment income (loss) (Note 9)				
Investment income (loss)		1,381,492		(2,312,034)
Investment expenses		(63,543)		(66,479)
		1,317,949		(2,378,513)
		2,631,904		(1,307,786)
Decrease in assets				
Pension benefits		569,021		524,557
Refunds to members		162,473		195,933
Transfers to other plans		25,911		21,216
Member service expenses (Note 10)		24,242		21,145
		781,647		762,851
Increase (decrease) in net assets		1,850,257		(2,070,637)
Net assets available for benefits at beginning of year		13,517,229		15,587,866
Net assets available for benefits at end of year	$	15,367,486	$	13,517,229

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

Statements of Changes in Liability for Accrued Benefits

Years ended December 31

	($ thousands) 2009	2008
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 1,189,500	$ 1,171,400
Benefits earned	950,400	909,400
Net experience losses (Note 7(b))	657,900	110,900
	2,797,800	2,191,700
Decrease in liability for accrued benefits		
Benefits paid including interest	760,300	742,400
Net decrease (increase) due to actuarial assumption changes	602,600	289,300
	1,362,900	1,031,700
Net increase in liability for accrued benefits	1,434,900	1,160,000
Liability for accrued benefits at beginning of year	17,931,200	16,771,200
Liability for accrued benefits at end of year (Note 7)	$ 19,366,100	$ 17,931,200

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

Statements of Changes in Deficiency

Years ended December 31

	($ thousands) 2009	2008
Deficiency at beginning of year	$ (4,413,971)	$ (1,183,334)
Increase (decrease) in net assets available for benefits	1,850,257	(2,070,637)
Net increase in liability for accrued benefits	(1,434,900)	(1,160,000)
Deficiency at end of year (Note 12)	$ (3,998,614)	$ (4,413,971)

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

Notes to the Financial Statements

Years ended December 31

(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 accordingly 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 12) 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, 2009 were 7.46% (2008 6.75%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 10.66 % (2008 9.64%) of the excess for employees, and 8.46 % (2008 7.75%) of pensionable earnings up to the YMPE and 11.66 % (2008 10.64%) 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, 2010 as follows: 8.06% of pensionable salary up to the YMPE and 11.53% of the excess for employees, and 9.06% of pensionable salary up to the YMPE and 12.53% 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) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least two years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

Note 1 (continued)

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 1^{st} 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 31^{st} 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.

Except for real rate of return bonds, which are held directly by the Plan, 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.

Note 2 (continued)

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 income 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 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 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.

Note 2 (continued)

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 (SCHEDULES A TO D)

	2009 Fair Value ($ thousands)	%	2008 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 475,477	3.1	$ 223,908	1.7
Canadian Long Term Government Bond Pool (b)	3,165,555	20.4	3,024,427	22.4
Universe Fixed Income Pool (b)	540,106	3.5	377,473	2.8
Private Mortgage Pool (d)	708,957	4.6	704,268	5.2
Currency Alpha Pool (e)	21,301	0.1	31,315	0.2
Fixed Income Overlay Strategy Pool (f)	(157,394)	(1.0)	(336,834)	(2.5)
Tactical Asset Allocation Pool	20,838	0.1	9,896	0.1
	4,774,840	**30.8**	**4,034,453**	**29.9**
Real rate of return bonds (c)	892,697	5.8	721,456	5.4
	5,667,537	**36.6**	**4,755,909**	**35.3**
Canadian Equities (Schedule B)				
Canadian Equities Master Pool (g)	1,859,716	12.0	-	-
Canadian Equities Transition Account Pool (h)	33,080	0.2	-	-
Canadian Overlay Strategy Pool (f)	-	-	132,480	1.0
Other Canadian equity pools	-	-	1,868,955	13.8
	1,892,796	**12.2**	**2,001,435**	**14.8**
Global Equities (Schedule C)				
Global Equities Master Pool (i)	3,762,157	24.3	-	-
Portable Alpha U.S. Equity Pool (j)	299,843	1.9	462,527	3.4
Global Equity Overlay Strategy Pool (f)	179,736	1.2	296,396	2.2
Emerging Markets Equity Pool (k)	37,633	0.2	56,503	0.4
Structured Transition Pool (l)	72,569	0.5	7,699	0.1
Other Global equity pools	-	-	2,678,928	19.9
	4,351,938	**28.1**	**3,502,053**	**26.0**
Private Real Estate Pool (Schedule D) (m)	1,827,730	11.8	1,634,272	12.1
Absolute Return Strategy Pool (n)	590,835	3.8	557,517	4.1
Private Income (o)	572,405	3.7	478,221	3.5
Private equities (p)	514,422	3.3	491,699	3.7
Timberland Pool (q)	76,718	0.5	71,960	0.5
Total investments	**$ 15,494,381**	**100.0**	**$ 13,493,066**	**100.0**

Note 3 (continued)

a) The Consolidated Cash Investment Trust Fund is managed with the objective 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.

b) The Canadian Long Term Government Bond Pool (CLGB) and the Universe Fixed Income Pool (UFIP) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Long Term All Government Bond Index and the DEX Universe Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CLGB portfolio invests primarily in fixed income instruments of the federal, provincial and municipal governments of Canada while the UFIP portfolio is comprised of Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

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

d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of commercial mortgage loans, provincial bond residuals and speciality mortgages. To limit investment risk, mortgage loans are restricted to first mortgage loans diversified by property usage and geographic location and a small portion of NHA insured loans.

e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, Europe, Australasia and the Far East (EAFE) equities, major foreign currencies and styles and sectors. At December 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.

g) On July 31, 2009, the Plan consolidated its holdings in various Canadian public equity pools and invested in the newly created Canadian Equities Master Pool (CEMP). CEMP owns all the units of the following pools:

	Percent of CEMP	
	2009	2008
Canadian Equities Index Pool	40.3	-
Canadian Quantitative Strategies Pool	32.1	-
Canadian External Managers Pool	27.6	-
	100.0	-

CEMP provides participants with the opportunity to gain broad investment exposure to Canadian public equity markets by investing in directly held public equities and structured equity products.

CEMP has a performance objective to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool gains exposure to the Canadian public equity market through a structured investment implementation and a quantitative minimum variance implementation, and uses an overlay strategy to manage the overall risk exposure. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in Canadian equities. Through the use of interest rate swaps FRNP provides investment opportunities in floating rate instruments with remaining term-to-maturities of five years or less.

h) The Canadian Equities Transition Account holds cash and one Canadian equity investment in the financial sector.

Note 3 (continued)

i) On July 31, 2009, the Plan consolidated its holdings in various U.S. and Non-North American public equity pools and invested in the newly created Global Equities Master Pool (GEMP). GEMP owns all the units in the following pools:

	Percent of GEMP	
	2009	2008
Global External Managers Pool	43.0	-
Global Equities Index Pool	35.8	-
North American Concentrated Equity Pool	18.7	-
Global Equities Overlay Pool	1.8	-
EAFE Quantitative Equity Strategies	0.7	-
	100.0	-

GEMP provides participants with the opportunity to gain broad investment exposure to global public equity markets by investing in directly held public equities, structured equity products and concentrated equities.

GEMP has a performance objective to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) World Total Return Index over a four-year moving average period. The Pool gains exposure to global equity markets in developed countries through a structured investment implementation and uses an overlay strategy to manage the overall risk exposure. The Pool's North American concentrated equity strategy holds larger positions in mid size Canadian and American companies ranging from 5% to 20% of outstanding common shares. The Pool's investment in units of FRNP is used as the underlying securities to support the index swaps of the Pool.

j) The Portable Alpha U.S. Equity Pool provides exposure to the global equity market by replicating the MSCI World Total Return Index with MSCI World Total Return Index swaps and futures contracts. Absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. At December 31, 2009 the performance objective is to provide returns higher than the total return of the MSCI World Total Return Index over a four-year period.

k) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

l) The Structured Transition Pool provides exposure to U.S. and EAFE markets through the use of structured investments such as foreign equity index swaps.

m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies, which have issued to the Pool 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. The Pool is intended to provide diversification from the securities market.

n) The Absolute Return Strategy Pool is managed with the objective of providing investment returns comparable to the HFRX Global Hedged Index. The Pool is intended to yield absolute positive investment returns with lower volatility using various investment strategies.

o) The Private Income Pools are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 6%. The Private Income Pools invest in infrastructure related projects that are structured to yield high current income. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single partnership.

p) The Foreign Private Equity Pools are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8%. The Foreign Private Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

Note 3 (continued)

q) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal 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 a long-term policy asset mix of:

Cash and short-term securities	0.5%
Universe bonds	8.0%
Long bonds	20.0%
Real return bonds	7.0%
Canadian equities	11.0%
Global equities	17.5%
Absolute Return Strategies	3.5%
Private income	7.5%
Timberland	3.0%
Private equities	7.5%
Real estate	14.5%

Investment risk is reduced through asset class diversification, diversification within each asset class; quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Note 5 (continued)

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Swap option contracts include the right but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009:

($ thousands)

	2009					2008	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%						
Equity index swap contracts	99	1	-	$3,411,339	$ 40,370	$1,090,828	$ 30,486
Forward foreign exchange contracts	100	-	-	2,789,653	59,549	1,891,040	(129,664)
Futures contracts	100	-	-	1,287,716	85,745	586,003	69,137
Swap option contracts	100	-	-	755,221	(5,937)	-	-
Interest rate swap contracts	23	65	12	504,146	(19,580)	172,748	(4,471)
Credit default swap contracts	32	38	30	494,217	(3,467)	530,257	(10,193)
Cross-currency interest rate swaps	54	31	15	329,256	3,938	118,650	(9,326)
Bond index swap contracts	100	-	-	19,866	(178)	25,699	676
				$9,591,414	$ 160,440	$4,415,225	$ (53,355)

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

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 Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

At December 31, 2009, 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 $226,297 (2008:$nil). The net fair value of these contracts totalled $(429) (2008:$nil).

NOTE 6 CONTRIBUTIONS RECEIVABLE

	($ thousands) 2009	2008
Employers	$ 21,498	$ 21,928
Employees	19,422	19,539
	$ 40,920	$ 41,467

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 results were then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $19,366,100 (2008: $17,931,200) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate.

The major assumptions used for accounting purposes were:

	2009	2008
	%	
Investment rate of return	6.50	6.30
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, 2009 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 2010.

b) NET EXPERIENCE LOSSES

Experience losses of $657,900 (2008: $110,900) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 extrapolation for reporting compared to actual results.

Note 7 (continued)

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, 2009:

	($ 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	1,284,400	0.8
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	809,500	1.0
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	2,969,500	2.6

* The current service cost as a percentage of pensionable earnings as determined by the December 31, 2009 extrapolation was 13.28%.

NOTE 8 CONTRIBUTIONS

	($ thousands)	
	2009	**2008**
Current and optional service		
Employers	$ 677,825	$ 544,796
Employees (a)	615,785	503,928
Transfers from other plans	20,345	22,003
	$ 1,313,955	$ 1,070,727

a) Includes $19,789 (2008: $18,669) of optional service contributions.

NOTE 9 NET INVESTMENT INCOME (LOSS)

a) INVESTMENT INCOME (LOSS)

Net investment income (loss) is comprised of the following:

	($ thousands) 2009	2008
Investment income (loss)		
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	$ 881,189	$ (2,882,425)
Interest income	262,671	279,671
Dividend income	149,781	200,642
Real estate income	81,625	75,595
Securities lending income	6,226	14,483
	1,381,492	(2,312,034)
Investment expenses	(63,543)	(66,479)
Net investment income (loss)	$ 1,317,949	$ (2,378,513)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	($ thousands) 2009	2008
Global equities	$ 551,231	$ (1,367,228)
Canadian equities	521,148	(875,511)
Fixed income securities	333,950	14,073
Absolute return strategies	96,170	(203,162)
Private income	6,228	68,633
Timberland	(4,049)	(10,564)
Private equities	(42,205)	(89,055)
Private real estate	(144,524)	84,301
Net Investment income (loss)	$ 1,317,949	$ (2,378,513)

Note 9 (continued)

The following is a summary of the investment performance results attained by the Plan:

	2009	2008	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Sixteen-Year Compound Annualized Return
Time-weighted rates of return*					
Actual gain (loss)*	9.4%)	(15.1%)	2.6%	5.2%	7.0%
Benchmark gain (loss)**	11.1%)	(10.9%)	3.6%	5.4%	7.1%
Value lost by investment manager	(1.7%)	(4.2%)	(1.0%)	(0.2%)	(0.1%)

* 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).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determinaton 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.

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 the Plan and its share of expenses through pool investment funds.

Investment services provided by Alberta Investment Management Corporation (AIMCo) are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers, engaged by AIMCo, 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 net assets and per member are provided below:

	($ thousands)	
	2009	2008
Total investment expenses	$ 63,543	$ 66,479
Investment expenses as a percentage of net assets	0.41%	0.49%
Investment expenses per member	$ 327	$ 361

NOTE 10 MEMBER SERVICE EXPENSES

	($ thousands) 2009	2008
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 21,782	$ 18,642
Alberta Local Authorities Pension Plan Corporation (ALAPP Corp.)	2,206	2,099
Actuarial fees	254	404
	24,242	21,145
Member service expenses per member	$ 125	$ 115

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)

	2009				2008
	Base Salary [a]	Other Cash Benefits [b]	Other Non-Cash Benefits [c]	Total	Total
Corporation Board Chair [d]	$ -	$ 39	$ -	$ 39	$ 29
Corporation Board Members (excluding Chair) [d]	$ -	$ 133	-	$ 133	127
President & Chief Executive Officer [e]	$ 182	$ 35	40	$ 257	323
Vice-President: Policy and Legal [f]	$ 145	$ 28	33	$ 206	218
	$ 327	$ 235	$ 73	$ 635	$ 697

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) Position held for ten months, vacant for two months.

f) Position includes three months of Acting Chief Executive Officer pay.

NOTE 11 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9 (b) and member service expenses per Note 10 are $87,785 (2008: $87,624) or $451 (2008: $476) per member and 0.57% (2008: 0.60%) of net assets under administration.

NOTE 12 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 $16,198,400 at December 31, 2009 (2008: $15,418,300).

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, 2020. The special payments have been included in the rates in effect at December 31, 2009 (see Note 1(b)).

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2009 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, ALAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands) Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 372,046	$ 322,425
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed	1,166,672	799,341
Provincial		
Alberta, direct and guaranteed	80	104
Other Provincial, direct and guaranteed	2,159,133	1,963,349
Municipal	72,919	70,202
Corporate, public and private	1,859,496	1,575,320
	5,258,300	4,408,316
Receivable from sale of investments and accrued investment income	47,687	41,188
Accounts payable and accrued liabilities	(10,496)	(16,020)
	37,191	25,168
	$ 5,667,537	$ 4,755,909

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in deposits and fixed income securities is reduced by the notional amount of derivative contracts totalling $157,394 (2008: $373,156).

b) Fixed income securities held as at December 31, 2009 had an average effective market yield of 5.3% per annum (2008: 5.4% per annum). The following term structure of these securities as at December 31, 2009 is based on the principal amount:

	2009	**2008**
		%
under 1 year	1	1
1 to 5 years	9	8
6 to 10 years	15	8
11 to 20 years	24	17
over 20 years	51	66
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES Schedule B

	($ thousands)	
	Plan's Share	
	2009	2008
Deposits and short-term securities	$ 14,764	$ 46,168
Public equities (a) (b)		
Consumer discretionary	124,225	175,525
Consumer staples	89,499	88,275
Energy	442,981	427,025
Financials	534,152	412,933
Health care	17,558	19,582
Industrials	139,455	203,635
Information technology	61,276	57,777
Materials	308,240	235,864
Telecommunication services	99,166	90,514
Utilities	47,438	37,542
	1,863,990	1,748,672
Pooled investment funds	-	157,255
Receivable from sale of investments and accrued investment income	28,818	87,996
Accounts payable and accrued liabilities	(14,776)	(38,656)
	14,042	49,340
	$ 1,892,796	$ 2,001,435

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swaps and futures contracts totalling $612,226 (2008: $99,736).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's Toronto Stock Exchange Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN GLOBAL EQUITIES

Schedule C

	($ thousands) Plan's Share 2009	2008
Deposits and short-term securities	$ 134,372	$ 87,871
Public equities (a) (b)		
Consumer discretionary	429,355	311,234
Consumer staples	416,386	356,909
Energy	381,075	328,717
Financials	849,257	613,731
Health care	350,227	415,646
Industrials	609,239	398,128
Information technology	355,571	315,043
Materials	252,734	195,056
Telecommunication services	182,946	257,651
Utilities	158,052	175,640
	3,984,842	3,367,755
Pooled investment funds	-	30,806
U. S. Hedge funds	238,591	-
	4,223,433	3,398,561
Receivable from sale of investments and accrued investment income	26,192	45,262
Accounts payable and accrued liabilities	(32,059)	(29,641)
	(5,867)	15,621
	$ 4,351,938	$ 3,502,053

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in global public equities includes the notional amount of global equity index swaps and futures contracts totalling $ 1,614,206 (2008: $1,060,309).

b) The sector classification conforms to the Global Industry Classification Standard followed by the MSCI World Total Return Index. The following is a summary of the Plan's investment in global markets by geographic region:

	($ thousands) Plan's Share 2009	2008
United States	$ 1,460,723	$ 1,122,234
Europe, Australasia and the Far East	2,503,886	2,219,824
Canada	183,222	-
Emerging markets	75,602	56,503
	$ 4,223,433	$ 3,398,561

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule D

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 47,507	$ 3,575
Real estate (a)		
Office	791,860	735,532
Retail	572,609	473,067
Industrial	232,010	256,025
Residential	104,993	99,449
	1,701,472	1,564,073
Pooled investment fund	68,773	55,429
Accrued income and accounts receivable	9,978	11,195
	$ 1,827,730	$ 1,634,272

a) The following is a summary of the Plan's investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2009	**2008**
Ontario	$ 884,364	$ 801,877
Alberta	637,908	592,631
Quebec	143,177	135,737
British Columbia	36,023	33,828
	$ 1,701,472	$ 1,564,073

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2009

AUDITOR'S REPORT

To the Minister of Alberta Finance and Enterprise

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Management Employees Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended. These financial statements are the responsibility of the Plan's 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 financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]
Auditor General

Edmonton, Alberta
April 12, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31

	($ thousands) 2009	2008
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 2,316,398	$ 1,960,455
Accrued investment income and accounts receivable	329	120
Contributions receivable (Note 6)	825	10,833
	2,317,552	1,971,408
Liabilities		
Accounts payable	837	543
Liabilities for investment purchases	9,000	-
	9,837	543
Net assets available for benefits	2,307,715	1,970,865
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	2,790,914	2,539,439
Deficiency	$ (483,199)	$ (568,574)

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

Statements of Changes in Net Assets Available For Benefits

Years ended December 31

	($ thousands) 2009	2008
Increase in Assets		
Contributions (Note 8)	$ 144,721	$ 131,406
Net investment income (loss) (Note 9)		
Investment income (loss)	307,231	(411,196)
Investment expenses	(6,805)	(5,945)
Transfers from other plans, net	14,616	8,752
	459,763	(276,983)
Decrease in Assets		
Pension benefits	114,834	103,672
Refunds to members	6,552	8,405
Member service expenses (Note 10)	1,527	1,375
	122,913	113,452
Increase (decrease) in net assets	336,850	(390,435)
Net assets available for benefits at beginning of year	1,970,865	2,361,300
Net assets available for benefits at end of year	$ 2,307,715	$ 1,970,865

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

Statements of Changes in Liability for Accrued Benefits

Years ended December 31

	2009	2008
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 176,661	$ 164,903
Benefits earned	103,082	94,059
Net experience losses (Note 7b)	25,540	-
Net increase (decrease) due to actuarial assumption changes (Note 7a)	52,962	(61,839)
	358,245	197,123
Decrease in liability for accrued benefits		
Benefits paid and transfers	106,770	103,325
	106,770	103,325
Net increase in liability for accrued benefits	251,475	93,798
Liability for accrued benefits at beginning of year	2,539,439	2,445,641
Liability for accrued benefits at end of year (Note 7)	$ 2,790,914	$ 2,539,439

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

Statements of Changes in Deficiency

Years ended December 31

		($ thousands)		
		2009		**2008**
Deficiency at beginning of year	$	(568,574)	$	(84,341)
Increase (decrease) in net assets available for benefits		336,850		(390,435)
Net increase in liability for accrued benefits		(251,475)		(93,798)
Deficiency at end of year (Note 12)	$	(483,199)	$	(568,574)

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

Notes to the Financial Statements

Years ended December 31
(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 accordingly 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 12) 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, 2009 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.

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 federal *Income Tax Act.* The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

Note 1 (continued)

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.

Except for real rate of return bonds which are held directly by the Plan, 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.

Note 2 (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 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 income investments are 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 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 Absolute Return Strategy Pool investments is estimated by external managers.

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.

Note 2 (continued)

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 (SCHEDULES A TO D)

($ thousands)

	2009		2008	
	Fair Value	%	Fair Value	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 30,625	1.3	$ 8,708	0.4
Universe Fixed Income Pool (b)	583,802	25.2	518,936	26.5
Private Mortgage Pool (c)	113,525	4.9	112,362	5.7
Currency Alpha Pool (e)	3,368	0.2	4,951	0.3
Fixed Income Overlay Strategy Pool (f)	(338)	-	(49,182)	(2.5)
Tactical Asset Allocation Pool	3,012	0.1	1,430	0.1
	733,994	31.7	597,205	30.5
Real Rate of Return Bonds (d)	91,718	4.0	76,680	3.9
	825,712	35.7	673,885	34.4
Canadian Equities (Schedule B)				
Canadian Equity Master Pool (g)	490,778	21.2	-	-
Canadian Equities Transition Account (h)	13,641	0.6	-	-
Canadian Equity Overlay Strategy Pool (f)	-	-	19,343	1.0
Other Canadian Equity Pools	-	-	391,548	20.0
	504,419	21.8	410,891	21.0
Global Equities (Schedule C)				
Global Equity Master Pool (i)	701,284	30.3	-	-
Portable Alpha U.S. Pool (j)	57,632	2.4	67,460	3.5
Emerging Markets Equity Pool (k)	5,591	0.2	8,698	0.4
Global Equity Overlay Strategy Pool (f)	385	-	43,277	2.2
Structured Transition Pool	-	-	1,185	0.1
Other Global Equity Pools	-	-	487,242	24.8
	764,892	32.9	607,862	31.0
Real Estate Equities (Schedule D) (l)	124,121	5.4	175,510	8.9
Private Equity Pools (m)	44,364	1.9	41,823	2.1
Private Income Pools (n)	44,200	1.9	34,803	1.8
Absolute Return Strategy Pool (o)	8,690	0.4	15,681	0.8
Total investments	$ 2,316,398	100.0	$ 1,960,455	100.0

a) The Consolidated Cash Investment Trust Fund is managed with the objective 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.

b) The Universe Fixed Income Pool (UFIP) is managed with the objective of providing competitive returns comparable to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of -Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

Note 3 (continued)

c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of commercial mortgage loans and provincial bond residuals and specialty mortgages. The Pool invests primarily in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

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

e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, Europe, Australasia and the Far East (EAFE) equities, major foreign currencies and styles and sectors. At December 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.

g) On July 31, 2009, the Plan consolidated its holdings in various Canadian public equity pools and invested in the newly created Canadian Equities Master Pool (CEMP). CEMP owns all the units of the following pools:

	Percent of CEMP	
	2009	2008
Canadian Equities Index Pool	40.3	-
Canadian Quantitative Strategies Pool	32.1	-
Canadian External Managers Pool	27.6	-
	100.0	-

CEMP provides participants with the opportunity to gain broad investment exposure to Canadian public equity markets by investing in directly held public equities and structured equity products.

CEMP has a performance objective to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool gains exposure to the Canadian public equity market through a structured investment implementation and a quantitative minimum variance implementation, and uses an overlay strategy to manage the overall risk exposure. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in Canadian equities. Through the use of interest rate swaps FRNP provides investment opportunities in floating rate instruments with remaining term-to-maturities of five years or less.

h) The Canadian Equities Transition Account holds cash and one Canadian equity investment in the financial sector.

Note 3 (continued)

i) On July 31, 2009, the Plan consolidated its holdings in various U.S. and Non-North American public equity pools and invested in the newly created Global Equities Master Pool (GEMP). GEMP owns all the units in the following pools:

	Percent of GEMP	
	2009	2008
Global External Managers Pool	43.0	-
Global Equities Index Pool	35.8	-
North American Concentrated Equity Pool	18.7	-
Global Equities Overlay Pool	1.8	-
EAFE Quantitative Equity Strategies	0.7	-
	100.0	-

GEMP provides participants with the opportunity to gain broad investment exposure to global public equity markets by investing in directly held public equities, structured equity products and concentrated equities.

GEMP has a performance objective to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) World Total Return Index over a four-year moving average period. The Pool gains exposure to global equity markets in developed countries through a structured investment implementation and uses an overlay strategy to manage the overall risk exposure. The Pool's North American concentrated equity strategy holds larger positions in mid size Canadian and American companies ranging from 5% to 20% of outstanding common shares. The Pool's investment in units of FRNP is used as the underlying securities to support the index swaps of the Pool.

j) The Portable Alpha U.S. Pool provides exposure to the global equity market by replicating the MSCI World Total Return Index with MSCI World Total Return index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. At December 31, 2009 the performance objective is to provide returns higher than the total return of the MSCI World Total Return Index over a four-year period.

k) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

l) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies which have issued to the Pool, 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. The Pool is intended to provide diversification from the securities market.

m) The Private Equity Pools are managed with the objective of providing investment return comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The Pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

n) The Private Income Pools are managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6% over the long term. The Pool invests in infrastructure related projects that are structured to provide high current income.

o) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Hedged Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal and 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 long-term policy asset mix benchmark:

Fixed income	32.5%
Foreign equity	30.0%
Canadian equity	22.0%
Real estate	7.0%
Private income	4.0%
Private equity	3.0%
Absolute return strategies	1.0%
Short-term	0.5%

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risks and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

Note 5 (continued)

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009:

($ thousands)

	2009					2008	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%						
Credit default swap contracts	30	38	32	$ 492,381	$ (3,543)	$ 727,690	$ (13,773)
Equity index swap contracts	99	1	-	453,600	9,281	499,455	5,906
Forward foreign exchange contracts	100	-	-	317,688	2,535	160,696	(5,300)
Futures contracts	100	-	-	246,653	16,516	100,094	14,811
Swap option contracts	100	-	-	140,594	(811)	-	-
Interest rate swap contracts	21	69	10	121,552	(4,216)	184,859	(8,732)
Cross-currency interest rate swaps	42	30	28	94,496	3,660	130,110	(5,851)
Bond index swap contracts	100	-	-	21,473	(192)	35,330	929
				$ 1,888,437	$ 23,230	$ 1,838,234	$ (12,010)

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

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 Plan attempts to limit its credit exposure by dealing with counter-parties believed to have a good credit standing.

NOTE 6 CONTRIBUTIONS RECEIVABLE

($ thousands)

	2009	2008
Employers	$ 521	$ 6,833
Employees	304	4,000
	$ 825	$ 10,833

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 Aon Consulting Inc. and was then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,790,914 (2008: $2,539,439) 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 major assumptions used for accounting purposes were:

	2009	2008
	%	
Investment rate of return	6.60	6.75
Inflation rate		
For 2009	3.50	3.50
Thereafter	2.25	2.25
Salary escalation rate*		
For 2009	4.00	4.00
Thereafter	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 LOSSES

Net experience losses of $25,540 (2008: $nil) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 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 (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, 2009:

	($ thousands)		
	Changes in Assumptions %	**Increase in Plan Deficiency $**	**Increase in Current Service Cost as a % Pensionable Earnings ***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	187,400	1.3
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	19,000	0.4
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	364,000	3.9

* The current service cost of accruing benefits (excluding 0.4% allowance for administration expenses) as a percentage of pensionable earnings as determined by the December 31, 2008 valuation was 20.3%.

NOTE 8 CONTRIBUTIONS

	($ thousands)	
	2009	**2008**
Current and optional service		
Employers	$ 89,843	$ 81,444
Employees	54,878	49,962
	$ 144,721	$ 131,406

NOTE 9 NET INVESTMENT INCOME (LOSS)

a) INVESTMENT INCOME (LOSS)

Net investment income (loss) of the Plan is comprised of the following:

	($ thousands)	
	2009	**2008**
Investment income (loss)		
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	$ 227,358	$ (502,282)
Interest income	49,286	57,490
Dividend income	23,401	24,036
Real estate operating income	6,591	8,126
Securities lending income	595	1,434
	307,231	(411,196)
Investment expenses	(6,805)	(5,945)
Net investment income (loss)	$ 300,426	$ (417,141)

Note 9 (continued)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	($ thousands) 2009	2008
Canadian equities	$ 143,325	$ (189,538)
Global Equities	110,755	(226,332)
Fixed income securities	54,250	(5,323)
Absolute return strategies	2,328	(5,451)
Private Income	651	4,330
Private equities	(1,078)	(3,898)
Private real estate	(9,805)	9,071
Net investment income (loss)	$ 300,426	$ (417,141)

The following is a summary of the investment performance results attained by the Plan:

	2009	2008	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return	Sixteen-Year Compound Annualized Return
Time-weighted rates of return*					
Actual gain (loss)	15.0%	(17.6%)	2.6%	5.1%	7.2%
*Benchmark gain (loss)***	15.1%	(14.5%)	3.4%	5.2%	7.1%
Value added (lost) by investment manager	(0.1%)	(3.1%)	(0.8%)	(0.1%)	0.1%

* 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).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determinaton 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.

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 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.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charge to the Plan.

Note 9 (continued)

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands)	
	2009	**2008**
Total investment expenses	$ 6,805	$ 5,945
Investment expenses as a percentage of net assets	0.29%	0.30%
Investment expenses per member	$ 755	$ 695

NOTE 10 MEMBER SERVICE EXPENSES

Member service expenses of $1,527 (2008: $1,375) which include the Board costs in the amount of $73 (2008: $77), were charged to the Plan on a cost-recovery basis. These are $169 (2008: $161) 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 11 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are $8,332 (2008: $7,320) or $924 (2008: $856) per member and 0.36% (2008: 0.37%) of net assets under administration.

NOTE 12 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 $2,423,000 at December 31, 2009 (2008: $2,069,000).

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, 2009 (see Note 1(b)).

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2009 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 Board.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES Schedule A

	($ thousands) Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 46,635	$ 41,719
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	168,877	115,659
Provincial		
Alberta, direct and guaranteed	87	143
Other Provincial, direct and guaranteed	117,626	81,550
Municipal	3,286	34
Corporate, public and private	485,305	443,465
	775,181	640,851
Receivable from sale of investments and accrued investment income	14,339	5,654
Accounts payable and accrued liabilities	(10,443)	(14,339)
	3,896	(8,685)
	$ 825,712	$ 673,885

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in deposits and fixed income securities is reduced by the notional amount of derivative contracts totalling $338 (2008: $54,485).

(b) Fixed income securities held as at December 31, 2009 had an average effective market yield of 4.8% per annum (2008: 5.3% per annum). The following term structure of these securities as at December 31, 2009 was based on the principal amount:

	2009	**2008**
	%	**%**
under 1 year	4	4
1 to 5 years	31	33
6 to 10 years	31	24
11 to 20 years	15	17
over 20 years	19	22
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES Schedule B

	($ thousands) Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 6,088	$ 9,050
Canadian public equities (a) (b)		
Consumer discretionary	32,783	23,623
Consumer staples	23,619	13,830
Energy	116,903	107,109
Financials	143,680	114,511
Health care	4,634	1,007
Industrials	36,802	24,155
Information technology	16,171	13,037
Materials	81,344	62,967
Telecommunication services	26,170	26,062
Utilities	12,519	5,093
	494,625	391,394
Pooled investment funds	-	13,153
Receivable from sale of investments and accrued investment income	7,605	7,567
Accounts payable and accrued liabilities	(3,899)	(10,273)
	3,706	(2,706)
	$ 504,419	$ 410,891

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swaps and futures contracts totalling $161,566 (2008: $168,883).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's Toronto Stock Exchange Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN GLOBAL EQUITIES

Schedule C

	($ thousands) Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 7,103	$ 13,340
Public equities (a) (b)		
Consumer discretionary	77,222	52,732
Consumer staples	76,151	68,089
Energy	71,842	64,608
Financials	139,381	102,153
Health care	67,303	75,034
Industrials	109,418	66,974
Information technology	80,346	61,262
Materials	37,148	29,529
Telecommunication services	29,687	39,803
Utilities	25,620	29,740
	714,118	589,924
Pooled investment funds	-	4,495
U.S. Hedge Funds	44,304	-
	758,422	594,419
Receivable from sale of investments and accrued investment income	4,857	6,826
Accounts payable and accrued liabilities	(5,490)	(6,723)
	(633)	103
	$ 764,892	$ 607,862

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in global public equities includes the notional amount of global equity index swaps and futures contracts totalling $302,603 (2008: $345,461).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the MSCI World Total Return Index. The following is a summary of the Plan's investment in global equities by geographic region:

	($ thousands) Plan's share	
	2009	**2008**
United States	374,998	280,583
Europe, Australasia and the Far East	336,478	305,138
Canada	34,235	-
Emerging Markets	12,711	8,698
	758,422	594,419

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule D

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 3,226	$ 384
Real estate (a)		
Office	53,775	78,991
Retail	38,886	50,804
Industrial	15,756	27,496
Residential	7,130	10,680
	115,547	167,971
Pooled investment funds	4,670	5,953
Accrued income and accounts receivable	678	1,202
	$ 124,121	$ 175,510

(a) The following is a summary of the Plan’s investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2009	**2008**
Ontario	$ 60,058	$ 86,116
Alberta	43,320	63,645
Quebec	9,723	14,577
British Columbia	2,446	3,633
	$ 115,547	$ 167,971

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

Year Ended March 31, 2010

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statements of 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, 2010 and 2009 and the Statements of Changes in Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the Plan's 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 financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at March 31, 2010 and 2009 and the Changes in Net Assets Available for Benefits for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]
Auditor General

Edmonton, Alberta
July 7, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at March 31

	($ thousands)	
	2010	**2009**
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 91,154	$ 78,306
Receivable from sale of investment	450	-
Contributions receivable		282
	91,604	78,588
Liabilities		
Accounts payable	26	28
Net assets available for benefits	91,578	78,560
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 6)	93,298	89,419
Deficiency	**$ (1,720)**	**$ (10,859)**

See accompanying notes and schedules.

Statements of Changes in Net Assets Available for Benefits

Years ended March 31

	2010	2009
	($ thousands)	
Increase in assets		
Net investment income (loss) (Note 7)		
Investment income (loss)	$ 16,065	$ (16,950)
Investment expenses	(255)	(244)
	$ 15,810	$ (17,194)
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	1,055	972
Province of Alberta	2,437	2,243
	3,492	3,215
	19,302	(13,979)
Decrease in assets		
Pension benefits and refunds	6,170	5,852
Administration expenses (Note 8)	114	78
	6,284	5,930
Increase (decrease) in net assets	13,018	(19,909)
Net assets available for benefits at beginning of year	78,560	98,469
Net assets available for benefits at end of year	**$ 91,578**	**$ 78,560**

See accompanying notes and schedules.

Notes to the Financial Statements

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

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

For a complete description of the Provincial Judges and 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 6 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 6.

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 accordingly 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, 2010 are 7.00% of *capped salary* for plan members and 16.16% 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.

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.

Note 1 (continued)

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.

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.

Note 2 (continued)

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 private income 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.

The fair values of receivable from sale of investment, contributions receivable, and accounts payable are estimated to approximate their book values.

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 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 discount cash flows using current market yields and calculated default probabilities.

Note 2 (continued)

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.

NOTE 3 INVESTMENTS

($ thousands)

	2010		2009	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Deposits and short-term securities (a)	$ 749	0.8	$ 961	1.3
Bonds and mortgages (b)	38,749	42.5	31,455	40.1
	39,498	43.3	32,416	41.4
Total equities and alternative investments				
Public equities				
Canadian (c)	13,002	14.3	11,848	15.1
Global developed (d)	31,689	34.8	23,530	30.1
Emerging markets (e)	216	0.2	272	0.3
Absolute return strategy hedge funds (f)	532	0.6	1,383	1.8
Inflation sensitive				
Private real estate (g)	3,286	3.6	6,428	8.2
Private infrastructure investments (h)	2,469	2.7	2,429	3.1
Inflation sensitive real return bonds (i)	462	0.5	-	-
	51,656	56.7	45,890	58.6
Total investments	91,154	100.0	$ 78,306	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 Fund's assets in accordance with the investment policies approved by the Plan's board. The majority of 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 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 include primarily interest bearing securities which have a maximum term to maturity of less than three years. At March 31, 2010, deposits and short-term securities had a time-weighted return of 1.0% per annum (2009: 3.0% 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, 2010, interest bearing bonds and mortgages had an average effective market yield of 5.0% per annum (2009: 7.2% per annum) and the following term structure based on principal amount: under 1 year: 3% (2009: 6%); 1 to 5 years: 33% (2009: 37%); 5 to 10 years: 36% (2009: 25%); 10 to 20 years: 13% (2009: 16%); and over 20 years: 15% (2009: 16%). At March 31, 2010, Government of Canada bonds are used as underlying securities to support the notional value of bond index futures contracts totalling $nil (2009: $2,300).

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. At March 31, 2010, cash and floating rate notes are used as underlying securities to support the notional value of Canadian equity index swaps and futures contracts totalling $4,573 (2009: $7,160).

Note 3 (continued)

d) 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), and Canada. The global developed market is used to describe countries whose economies and capital markets are well established and mature. 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. At March 31, 2010, cash and money market securities are used as underlying securities to support the notional value of global equity index swaps and futures contracts totalling $10,884 (2009: $14,234).

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

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term policy asset mix benchmark and range for the following investments:

	Policy Benchmark	% Minimum	Maximum
Interest bearing securities	**42**	**40**	**50**
Deposits and short-term securities	1	0	5
Bonds	41	35	50
Private mortgages	0	0	5
Total equities and alternatives	**58**	**50**	**65**
Public equities			
Canadian	15	10	25
Global developed	32	20	50
Emerging markets	0	0	5
Absolute return strategy hedge funds	2	0	5
Inflation sensitive			
Private real estate	5	0	10
Private infrastructure investments	4	0	6

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Note 5 (continued)

Forward Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified stock index.

Swap option contracts include the right but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 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)]
Credit default swap contracts	30	38	32	$ 29,128	$ (227)	$ 47,407	$ (716)
Equity index swap contracts	99	1	-	16,806	450	17,368	76
Forward foreign exchange contracts	100	-	-	15,195	188	6,862	(181)
Futures contracts	100	-	-	11,848	793	6,584	981
Interest rate swap contracts	27	59	14	4,992	(134)	7,351	(344)
Cross-currency interest rate swap	25	28	47	3,699	319	5,734	(245)
Swap option contracts	100	-	-	2,956	(12)	-	-
Bond index swap contracts	-	-	-	-	-	1,459	11
				$ 84,624	$ 1,377	$ 92,765	$ (418)

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).

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 Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 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, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $93,298 (2008: $89,419) 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.

Note 6 (continued)

The major assumptions used for accounting purposes were:

	2010 %	2009 %
Investment rate of return	6.20	6.50
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.

	2010 ($ thousands)	2009 ($ thousands)
Accrued pension benefits at beginning of year	$ 89,419	$ 102,975
Interest accrued on benefits	5,812	6,693
Net experience gains*	(1,499)	(9,555)
Benefits earned	3,207	3,685
Net benefits paid	(6,170)	(5,852)
Change in economic assumptions	2,529	(8,527)
Accrued pension benefits at end of year	**$ 93,298**	**$ 89,419**

* Net experience gains of $1,499 (2008: $9,555) 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 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, 2010:

	Sensitivities		
	Changes in Assumptions %	**Decrease in Plan Surplus** *($ millions)*	**Increase in Current Service Cost***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 4.9	0.013
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.3	Nil
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	9.4	0.036

* As a % of capped pensionable earnings

NOTE 7 NET INVESTMENT INCOME (LOSS)

a) INVESTMENT INCOME (LOSS)

The following is a summary of the Registered Plan's net investment income (loss) by type of investments:

($ thousands)

	2010			2009		
	Gross income (loss)	Expenses	Net income (loss)	Gross income (loss)	Expenses	Net income (loss)
Interest bearing securities	$ 4,011	30	$ 3,981	$ (1,541)	$ 23	$ (1,564)
Canadian equities	4,649	19	4,630	(5,166)	13	(5,179)
Foreign equities	7,323	94	7,229	(10,352)	106	(10,458)
Private real estate	(246)	14	(260)	322	22	300
Inflation sensitive real return bonds	16	0	16	0	0	0
Absolute return strategies	220	10	210	(246)	15	(261)
Private infrastructure investments	92	27	65	33	20	13
Plan investment expenses	-	61	(61)	-	45	(45)
	$ 16,065	$ 255	$ 15,810	$ (16,950)	$ 244	$ (17,194)

The following is a summary of the investment performance results attained by the Plan.

			Compound Annualized Return		
	2010	2009	4 years	8 years	Return 16 years
Time-weighted rates of return*					
Actual gain (loss)	**20.2%**	**(17.7%)**	**2.0%**	**5.0%**	**7.0%**
Benchmark gain (loss)**	16.5%	(12.9%)	2.8%	4.9%	7.0%
Value added (lost) by investment manager	3.7%	(4.8%)	(0.8%)	0.1%	0.0%

* 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).

** 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.

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, reporting and treasury management services for the Plan. A portion of these costs is charge to the Plan.

NOTE 8 ADMINISTRATION EXPENSES

Administration expenses of $114 (2009: $78) comprised of general administration costs is paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 9 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 10 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, 2010 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, 2010 and changes in net assets available for benefits for the year then ended is as follows:

	($ thousands)	
	2010	2009
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	$ 3,182	$ 4,042
Income tax refundable	10,244	9,174
Accounts payable, net	(3,303)	(2,098)
	10,123	11,118
Liabilities		
Actuarial value of accrued benefits	81,826	74,076
Excess of liabilities over assets	(71,703)	(62,958)
Reserve Fund (a)	70,235	54,715
Net liabilities	**$ (1,468)**	**$ (8,243)**

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. These contributions are invested by the Province to meet future benefit payments of the Unregistered Plan over the long term.

Note 10 (continued)

	($ thousands) 2010	2009
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	$ 870	$ 925
Province of Alberta	870	925
Investment income	(5)	114
	1,735	1,964
Decrease in assets		
(Decrease) increase in actuarial accrued benefits	(7,750)	1,203
Pension benefits and refunds	(2,658)	(2,303)
Administration costs	(72)	(74)
	(10,480)	(1,174)
Increase (decrease) in the Reserve Fund	15,520	(7,299)
Decrease in net assets	6,775	(6,509)
Net assets liabilities at beginning of year	(8,243)	(1,734)
Net liabilities at end of year	**$ (1,468)**	**$ (8,243)**

An actuarial valuation for the Unregistered Plan was carried out as at December 31, 2008 by Johnson Inc. and was extrapolated to March 31, 2010.

The major assumptions used in the actuarial extrapolation to March 31, 2010, 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 6.2% per annum thereafter (see Note 6).

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.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 12 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.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statements of Liability for Accrued Benefits and Net Assets Available for Benefits of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the Plan's 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 financial statements present fairly, in all material respects, the Liability for Accrued Benefits and Net Assets Available for Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]
Acting Auditor General

Edmonton, Alberta
March 29, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Liability for Accrued Benefits and Net Assets Available for Benefits

As at December 31

	($ thousands) 2009	2008
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 4)	2,165	1,581
Accounts receivable	103	2
	2,268	1,583
Liabilities		
Accounts payable	3	3
	3	3
Net assets available for benefits	2,265	1,580
Liability for accrued Benefits		
Actuarial value of accrued pension benefits (Note 3)	$ 658,777	$ 658,466
Deficiency at end of year	$ (656,512)	$ (656,886)

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available For Benefits

Years ended December 31

	($ thousands) 2009	2008
Increase in assets		
Contributions from the Province of Alberta	$ 60,078	$ 59,400
Investment income	32	73
	60,110	59,473
Decrease in net assets		
Pension benefits	59,122	58,952
Administration expenses (Note 5)	303	289
Refunds and transfer to members	-	47
	59,425	59,288
Increase (Decrease) in net assets	685	185
Net assets available for benefits at beginning of year	1,580	1,395
Net assets available for benefits at end of year	$ 2,265	$ 1,580

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Years ended December 31
(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 accordingly 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.

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 Consulting Inc. and was then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $658,777 (2008: $658,466) 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:

	2009	2008
	%	%
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)	
	2009	2008
Actuarial value of accrued pension benefits at beginning of year	$ 658,466	$ 705,460
Interest accrued on benefits	32,778	33,798
Net experience losses	6,525	-
Net benefits paid	(59,122)	(58,999)
Net change due to changes in actuarial assumptions	20,130	(21,793)
Actuarial value of accrued pension benefits at end of year	$ 658,777	$ 658,466

Experience losses of $6,525 (2008: nil) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 extrapolation for reporting compared to actual results.

Note 3 (continued)

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, 2009:

	($ thousands)	
	Changes in Assumptions	**Increase in Plan Deficiency**
Inflation rate increase holding the nominal discount rate assumption constant	1.0%	$ 35,939
Nominal discount rate decrease holding the inflation rate assumption constant	(1.0%)	56,591

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, 2009, securities held by the Fund have a time weighted rate of return of 1.4% per annum (2008: 3.5% per annum).

NOTE 5 ADMINISTRATION EXPENSES

	($ thousands)	
	2009	**2008**
General administration costs	$ 280	$ 271
Investment management costs	10	13
Actuarial fees	13	5
	$ 303	$ 289

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 $126 (2008: $118) 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.

PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise and the Public Service Pension Board

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Public Service Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended. These financial statements are the responsibility of the Plan's 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 financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]
Acting Auditor General

Edmonton, Alberta
March 29, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31

	($ thousands) 2009	2008
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,491,682	$ 4,747,917
Contributions receivable (Note 6)	6,837	23,537
Accrued investment income and accounts receivable	2,834	870
Receivable for investment sales	7,000	-
	5,508,353	4,772,324
Liabilities		
Accounts payable	4,207	1,506
Liability for investment purchases	16,000	-
	20,207	1,506
Net assets available for benefits	5,488,146	4,770,818
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	7,217,342	5,958,356
Deficiency at end of year	$ (1,729,196)	$ (1,187,538)

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

Statements of Changes in Net Assets Available for Benefits

Years ended December 31

	($ thousands) 2009	2008
Increase in assets		
Contributions (Note 8)	$ 337,404	$ 325,492
Net investment income (loss) (Note 9)		
Investment income (loss)	698,104	(1,107,812)
Investment expenses	(19,249)	(19,258)
Transfers from other plans	13,092	13,101
	1,029,351	(788,477)
Decrease in assets		
Pension benefits	235,801	216,531
Refunds to members	48,522	62,239
Transfers to other plans	18,519	19,789
Member service expenses (Note 10)	9,181	8,076
	312,023	306,635
Increase (decrease) in net assets	717,328	(1,095,112)
Net assets available for benefits at beginning of year	4,770,818	5,865,930
Net assets available for benefits at end of year	$ 5,488,146	$ 4,770,818

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

Statements of Changes in Liability for Accrued Benefits

Years ended December 31

	($ thousands) 2009	2008
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 476,044	$ 415,820
Benefits earned	310,688	262,261
Net experience losses (Note 7b)	261,169	4,580
Net increase (decrease) due to actuarial assumption changes (Note 7a)	513,927	(384,185)
	1,561,828	298,476
Decrease in liability for accrued benefits		
Benefits paid	302,842	298,559
	302,842	298,559
Net increase (decrease) in liability for accrued benefits	1,258,986	(83)
Liability for accrued benefits at beginning of year	5,958,356	5,958,439
Liability for accrued benefits at end of year (Note 7)	$ 7,217,342	$ 5,958,356

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

Statements of Changes in Deficiency

Years ended December 31

	($ thousands) 2009	2008
Deficiency at beginning of year	$ (1,187,538)	$ (92,509)
Increase (decrease) in net assets available for benefits	717,328	(1,095,112)
Net (increase) decrease in liability for accrued benefits	(1,258,986)	83
Deficiency at end of year (Note 12)	$ (1,729,196)	$ (1,187,538)

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

Notes to the Financial Statements

Years ended December 31
(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 accordingly 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 12) 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 2009 were 6.69% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.55 % 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. As a result of this review, the contribution rates have increased at January 1, 2010 as follows: 9.10% of pensionable salary up to the YMPE and 13.00% of the excess for employees. Employers provide matching contributions.

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.

Note 1 (continued)

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.

Except for real rate of return bonds, which are held directly by the Plan, 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 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.

Note 2 (continued)

iii) The fair value of private equity and income 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.

Note 2 (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 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 (SCHEDULES A TO D)

	2009 Fair Value	2009 %	2008 Fair Value	2008 %
	($ thousands)			
CASH AND ABSOLUTE RETURN STRATEGIES				
Money Market				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 114,523	2.1	$ 69,056	1.4
Currency Alpha Pool (b)	8,649	0.2	12,715	0.3
Fixed Income Overlay Strategy Pool (f)	(22,243)	(0.4)	-	-
Tactical Asset Allocation Pool	6,707	0.1	3,398	0.1
	107,636	2.0	85,169	1.8
Absolute Return Strategy Pool (c)	156,420	2.9	152,218	3.2
Fixed Income Securities (Schedule A)				
Universe Fixed Income Pool (d)	440,433	8.0	435,350	9.1
Canadian Long Term Government Bond Pool (d)	559,442	10.2	481,977	10.2
Private Mortgage Pool (e)	217,051	4.0	221,988	4.7
Fixed Income Overlay Strategy Pool (f)	-	-	(119,749)	(2.5)
	1,216,926	22.2	1,019,566	21.5
EQUITIES				
Canadian Equities (Schedule B)				
Canadian Equities Master Pool (g)	762,606	13.9	-	-
Canadian Equities Transition Account (h)	33,080	0.6	-	-
Canadian Equity Overlay Strategy Pool (f)	-	-	47,098	1.0
Other Canadian equity pools	-	-	636,887	13.4
	795,686	14.5	683,985	14.4
Global Equities (Schedule C)				
Global Equities Master Pool (i)	2,044,433	37.3	-	-
Portable Alpha U.S. Pool (j)	164,663	2.9	238,104	5.0
Structured Transition Pool (k)	5,445	0.1	2,727	0.1
Global Equity Overlay Strategy Pool (f)	25,401	0.4	105,372	2.2
Emerging Markets Equity Pool (l)	135,239	2.5	89,469	1.9
Other global equity pools	-	-	1,464,041	30.8
	2,375,181	43.2	1,899,713	40.0
Private Equities (m)	72,639	1.3	66,556	1.4
INFLATION SENSITIVE				
Private Real Estate Pool (Schedule D) (n)	247,398	4.5	392,390	8.3
Real rate of return bonds (o)	221,150	4.0	231,387	4.9
Private Income (p)	171,731	3.1	138,010	2.9
Collaterized Commodity Futures Pool (q)	95,556	1.7	49,508	1.0
Timberland Pool (r)	31,359	0.6	29,415	0.6
Total investments	5,491,682	100.0	4,747,917	100.0

Note 3 (continued)

a) The Consolidated Cash Investment Trust Fund is managed with the objective 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.

b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

c) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Hedged Index. Various strategies are used to meet this objective. These strategies are expected to produce absolute positive investment returns with lower volatility.

d) The Canadian Long Term Government Bond Pool (CLGB) and the Universe Fixed Income Pool (UFIP) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Long Term All Government Bond Index and the DEX Universe Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CLGB portfolio invests primarily in fixed income instruments of the federal, provincial and municipal governments of Canada while the UFIP portfolio is comprised of Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

e) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans, provincial bond residuals and specialty mortgages. The Pool invests primarily in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, Europe, Australasia and the Far East (EAFE) equities, major foreign currencies and styles and sectors. At December 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.

g) On July 31, 2009, the Plan consolidated its holdings in various Canadian public equity pools and invested in the newly created Canadian Equities Master Pool (CEMP). CEMP owns all the units of the following pools:

	Percent of CEMP	
	2009	2008
Canadian Equities Index Pool	40.3	-
Canadian Quantitative Strategies Pool	32.1	-
Canadian External Managers Pool	27.6	-
	100.0	-

CEMP provides participants with the opportunity to gain broad investment exposure to Canadian public equity markets by investing in directly held public equities and structured equity products.

CEMP has a performance objective to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool gains exposure to the Canadian public equity market through a structured investment implementation and a quantitative minimum variance implementation, and uses an overlay strategy to manage the overall risk exposure. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in Canadian equities. Through the use of interest rate swaps FRNP provides investment opportunities in floating rate instruments with remaining term-to-maturities of five years or less.

Note 3 (continued)

h) The Canadian Equities Transition Account holds cash and one Canadian equity investment in the financial sector.

i) On July 31, 2009, the Plan consolidated its holdings in various U.S. and Non-North American public equity pools and invested in the newly created Global Equities Master Pool (GEMP). GEMP owns all the units in the following pools:

	Percent of GEMP	
	2009	2008
Global External Managers Pool	43.0	-
Global Equities Index Pool	35.8	-
North American Concentrated Equity Pool	18.7	-
Global Equities Overlay Pool	1.8	-
EAFE Quantitative Equity Strategies	0.7	-
	100.0	-

GEMP provides participants with the opportunity to gain broad investment exposure to global public equity markets by investing in directly held public equities, structured equity products and concentrated equities.

GEMP has a performance objective to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) World Total Return Index over a four-year moving average period. The Pool gains exposure to global equity markets in developed countries through a structured investment implementation and uses an overlay strategy to manage the overall risk exposure. The Pool's North American concentrated equity strategy holds larger positions in mid size Canadian and American companies ranging from 5% to 20% of outstanding common shares. The Pool's investment in units of FRNP is used as the underlying securities to support the index swaps of the Pool.

j) The Portable Alpha U.S. Pool provides exposure to the global equity market by replicating the MSCI World Total Return Index with MSCI World Total Return index swaps and futures contracts. Absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. At December 31, 2009 the performance objective is to provide returns higher than the total return of the MSCI World Total Return Index over a four-year period.

k) The Structured Transition Pool provides exposure to U.S. and EAFE markets through the use of structured investments such as foreign equity index swaps.

l) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

m) The Private Equity Pools are managed with the objective of providing investment return comparable to the Consumer Price Index plus 8.0% over the long term. The Pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

n) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies which have issued to the Pool, 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. The Pool is intended to provide diversification from the securities market.

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

Note 3 (continued)

p) The Private Income Pools are managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The Pool invests in infrastructure related projects that are structured to provide high current income.

q) The Collateralized Commodity Futures Pool is passively managed pool 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.

r) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal and 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 target policy asset mix;

Cash and absolute returns	5.5%
Fixed income securities	20.0%
Equities	56.5%
Inflation sensitive	18.0%

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Plan uses derivative contracts held directly or indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount from one counter-party to a second counter-party in exchange for a contingent payments should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Note 5 (continued)

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009

($ thousands)

	2009					2008	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%					
Equity index swap contracts	99	1	-	$ 1,316,685	$ 21,412	$ 1,249,239	$ 15,258
Forward foreign exchange contracts	100	-	-	1,036,648	16,355	582,697	(33,265)
Futures contracts	100	-	-	703,827	47,164	240,148	34,844
Credit default swap contracts	31	38	31	388,476	(2,766)	660,982	(15,377)
Swap option contracts	100	-	-	259,628	(1,886)	-	-
Interest rate swap contracts	24	64	12	257,464	(10,063)	358,448	(18,137)
Cross-currency interest rate swaps	51	32	17	183,237	2,520	306,981	(5,456)
Commodity index swaps	100	-	-	90,757	860	50,930	-
Bond index swap contracts	100	-	-	16,200	(145)	29,639	779
				$ 4,252,922	$ 73,451	$ 3,479,064	$ (21,354)

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

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 Plan attempts to limit its credit exposure by dealing with counter-parties believed to have a good credit standing.

At December 31, 2009, 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 $215,983 (2008: $nil). The net fair value of these contracts totalled $454 (2008: $nil).

NOTE 6 CONTRIBUTIONS RECEIVABLE

	($ thousands) 2009	2008
Employers	$ 3,408	$ 11,761
Employees	3,429	11,776
	$ 6,837	$ 23,537

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 Aon Consulting Inc. and results were then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $7,217,342 (2008: $5,958,356) 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 major assumptions used for accounting purposes were:

	2009	2008
	%	
Investment rate of return	6.60	7.00
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 $261,169 (2008: $4,580) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 extrapolation for reporting compared to actual results.

Note 7 (continued)

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, 2009:

	($ thousands)		
	Changes in Assumptions %	**Increase in Plan Deficiency $**	**Increase in Current Service Cost as a % Pensionable Earnings ***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	441,000	0.66
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	294,000	1.02
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,130,000	2.66

* The current service cost as a percentage of pensionable earnings is 13.22% at December 31, 2009.

NOTE 8 CONTRIBUTIONS

	($ thousands)	
	2009	**2008**
Current and optional service		
Employers	$ 169,285	$ 160,051
Employees	168,119	165,441
	$ 337,404	$ 325,492

NOTE 9 NET INVESTMENT INCOME (LOSS)

a) INVESTMENT INCOME (LOSS)

Net investment income (loss) of the Plan is comprised of the following:

	($ thousands) 2009	2008
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	$ 529,171	$ (1,320,875)
Interest income	93,351	127,478
Dividend income	59,902	63,261
Real estate operating income	13,905	18,168
Securities lending income	1,775	4,156
	698,104	(1,107,812)
Investment expenses	(19,249)	(19,258)
Net investment income (loss)	$ 678,855	$ (1,127,070)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	($ thousands) 2009	2008
Global equities	$ 339,368	$ (774,064)
Canadian equities	235,751	(315,678)
Fixed income securities	93,032	16,451
Absolute return strategies	26,455	(53,370)
Collateralized commodity futures	6,015	(18,990)
Private income	2,515	11,625
Timberland	(1,655)	(4,318)
Private equities	(3,013)	(9,224)
Private real estate	(19,613)	20,498
Net investment income (loss)	$ 678,855	$ (1,127,070)

Note 9 (continued)

The following is a summary of the investment performance results attained by the Plan:

	2009	2008	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Sixteen-year Compound Annualized Return
Time-weighted rates of return*					
Actual gain (loss)	14.0%	(19.2%)	1.7%	4.5%	6.7%
*Policy Benchmark gain (loss)***	*13.1%*	*(15.5%)*	*2.3%*	*4.5%*	*6.8%*
Value added (lost) by investment manager	0.9%	(3.7%)	(0.6%)	-	(0.1%)

* 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).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determinaton 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.

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, reporting and treasury management services for the Plan. A portion of these costs is charge to the Plan.

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands) 2009	2008
Total investment expenses	$ 19,249	$ 19,258
Investment expenses as a percentage of net assets	0.35%	0.40%
Investment expenses per member	$ 249	$ 256

NOTE 10 MEMBER SERVICE EXPENSES

	($ thousands) 2009	2008
General administration costs	$ 8,891	$ 7,808
Board costs	35	118
Actuarial fees	88	59
Other professional fees	167	91
	$ 9,181	$ 8,076
Member services expenses per member	$ 119	$ 107

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 11 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 10 are $28,430 (2008: $27,334) or $367 (2008: $363) per member and 0.52% (2008: 0.57%) of net assets under administration.

NOTE 12 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 $6,037,000 at December 31, 2009 (2008 $5,248,000).

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 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2009 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 Board.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 7,821	$ 30,927
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	98,594	6,791
Provincial		
Alberta, direct and guaranteed	65	120
Other Provincial, direct and guaranteed	447,764	373,348
Municipal	14,829	11,212
Corporate	638,708	598,557
	1,199,960	990,028
Receivable from sale of investments and accrued investment income	16,934	9,870
Accounts payable and accrued liabilities	(7,789)	(11,259)
	9,145	(1,389)
	$ 1,216,926	$ 1,019,566

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in deposits and fixed income securities is reduced by the notional amount of derivative contracts totalling $22,243 (2008: $132,663).

(b) Fixed income securities held as at December 31, 2009 had an average effective market yield of 4.8% per annum (2008: 5.2% per annum). The following term structure of these securities as at December 31, 2009 is based on principal amount:

	2009	**2008**
	%	**%**
under 1 year	2	2
1 to 5 years	19	18
6 to 10 years	24	13
11 to 20 years	18	18
over 20 years	37	49
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES Schedule B

	($ thousands) Plan's Share	
	2009	2008
Deposits and short-term securities	$ 14,764	$ 18,410
Public equities (a) (b)		
Consumer discretionary	50,940	38,870
Consumer staples	36,700	22,692
Energy	181,651	177,217
Financials	229,843	189,476
Health care	7,200	1,653
Industrials	57,186	39,812
Information technology	25,127	21,373
Materials	126,399	104,290
Telecommunication services	40,665	43,157
Utilities	19,453	8,328
	775,164	646,868
Pooled investment funds	-	22,651
Receivable from sale of investments and accrued investment income	11,817	12,537
Accounts payable and accrued liabilities	(6,059)	(16,481)
	5,758	(3,944)
	$ 795,686	$ 683,985

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swaps and futures contracts totalling $251,053 (2008: $281,133).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's Toronto Stock Exchange Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN GLOBAL EQUITIES

Schedule C

	($ thousands) Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 33,651	$ 34,888
Public equities (a) (b)		
Consumer discretionary	233,349	161,005
Consumer staples	228,315	208,943
Energy	225,516	202,817
Financials	448,238	309,684
Health care	205,208	234,048
Industrials	326,992	205,277
Information technology	263,792	200,566
Materials	115,492	87,008
Telecommunication services	92,783	119,890
Utilities	75,549	86,623
	2,215,234	1,815,861
Pooled investment funds	-	45,205
U. S. Hedge Funds	129,486	-
	2,344,720	1,861,066
Receivable from sale of investments and accrued investment income	14,904	23,030
Accounts payable and accrued liabilities	(18,094)	(19,271)
	(3,190)	3,759
	$ 2,375,181	$ 1,899,713

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in global public equities includes the notional amount of global equity index swaps and futures contracts totalling $878,884 (2008: $1,012,739).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the MSCI World Total Return Index. Global equities by geographic region are as follows:

	($ thousands) Plan's Share	
	2009	**2008**
United States	$ 1,192,775	$ 959,695
Europe, Australasia and the Far East	899,827	811,902
Emerging markets	152,471	89,469
Canada	99,647	-
	$ 2,344,720	$ 1,861,066

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule D

	($ thousands) Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 6,430	$ 858
Real estate (a)		
Office	107,185	176,601
Retail	77,507	113,584
Industrial	31,404	61,472
Residential	14,212	23,878
	230,308	375,535
Participation units	9,309	13,309
Accrued income and accounts receivable	1,351	2,688
	$ 247,398	$ 392,390

(a) The following is a summary of the Plan's investments in real estate by geographic locations:

	($ thousands) Plan's Share	
	2009	**2008**
Ontario	$ 119,706	$ 192,531
Alberta	86,346	142,291
Quebec	19,380	32,591
British Columbia	4,876	8,122
	$ 230,308	$ 375,535

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise and the Special Forces Pension Board

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Special Forces Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended. These financial statements are the responsibility of the Plan's 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 financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]
Auditor General

Edmonton, Alberta
May 7, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31

	($ thousands) 2009	2008
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,344,316	$ 1,199,702
Contributions receivable (Note 6)	3,597	3,306
Accrued investment income and accounts receivable	190	27
	1,348,103	1,203,035
Liabilities		
Accounts payable	47	31
Liability for investment purchases	375	-
	422	31
Net assets available for benefits	1,347,681	1,203,004
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,700,948	1,618,104
Indexing Fund	21,660	14,866
	1,722,608	1,632,970
Deficiency at end of year		
Plan Fund (Note 8) *	$ (374,927)	$ (429,966)

* The Plan Fund deficiency is comprised of a pre-1992 deficiency of $210,267 (2008: $243,888) and a post-1991 deficiency of $164,660 (2008: $186,078).

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

Statements of Changes in Net Assets Available for Benefits

Years ended December 31

($ thousands)

	2009			2008
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Net investment income (loss) (Note 9)				
Investment income (loss)	$ 162,565	$ 2,421	$ 164,986	$ (255,605)
Investment expenses	(4,793)		(4,793)	(4,133)
	157,772	2,421	160,193	(259,738)
Contributions (Note 10)	61,871	4,373	66,244	61,963
	219,643	6,794	226,437	(197,775)
Decrease in assets				
Pension benefits	76,762	-	76,762	72,490
Refunds and transfers	3,800	-	3,800	4,247
Member service expenses (Note 11)	1,198	-	1,198	1,020
	81,760	-	81,760	77,757
Increase (decrease) in net assets	137,883	6,794	144,677	(275,532)
Net assets available for benefits at beginning of year	1,188,138	14,866	1,203,004	1,478,536
Net assets available for benefits at end of year	$ 1,326,021	$ 21,660	$ 1,347,681	$ 1,203,004

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

Statements of Changes in Liability for Accrued Benefits

Years ended December 31

($ thousands)

	2009			2008
	Pre-1992	Post-1991	Total	Total
Increase in liability for accrued benefits				
Interest accrued on opening liability for accrued benefits	$ 51,868	$ 56,717	$ 108,585	$ 97,907
Benefits earned	-	52,423	52,423	45,136
Net increase (decrease) due to actuarial assumptions changes	(34,514)	(62,301)	(96,815)	1,847
Net experience losses (Note 7b)	33,813	67,669	101,482	-
Cost-of-living indexing adjustments and interest	-	6,794	6,794	7,629
	51,167	121,302	172,469	152,519
Decrease in liability for accrued benefits				
Benefits, transfers and interest	65,172	17,659	82,831	76,736
	65,172	17,659	82,831	76,736
Net increase (decrease) in liability for accrued benefits	(14,005)	103,643	89,638	75,783
Liability for accrued benefits at beginning of year	797,963	835,007	1,632,970	1,557,187
Liability for accrued benefits at end of year (Note 7)	$ 783,958	$ 938,650	$ 1,722,608	$ 1,632,970

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

Statements of Changes in Deficiency

Years ended December 31

	($ thousands)			
	2009			**2008**
	Pre-1992	**Post-1991**	**Total**	**Total**
Deficiency at beginning of year	$ (243,888)	$ (186,078)	$ (429,966)	$ (78,651)
Increase (decrease) in net assets available for benefits	19,616	125,061	144,677	(275,532)
Net (decrease) increase in liability for accrued benefits	14,005	(103,643)	(89,638)	(75,783)
Deficiency at end of year (Note 15)	$ (210,267)	$ (164,660)	$ (374,927)	$ (429,966)

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

Notes to the Financial Statements

Year ended December 31
(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 accordingly 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, 2009 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, 2009 for current service and post-1991 actuarial deficiency were unchanged from December 31, 2006 at 9.61% of pensionable salary for employers and 8.51% 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 11.11% of pensionable salary for employers and 10.01% for employees and 1.25% for the Province of Alberta.

As a result of the Board’s review of the December 31, 2008 actuarial valuation, contribution rates will increase effective July 1, 2010 as follows: 11.95% for current service and post-1991 actuarial deficiency for employees and 13.05% for employers. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and COLA payments to the Plan are 13.45% for employees and 14.55% for employers. The Province of Alberta contributes 1.25% towards the pre-1992 unfunded liability.

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, 2009 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.

Note 1 (continued)

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 normal form of pension is a joint and last survivor pension, guaranteed for a five-year period, with 65% continuing to the pension partner if he or she survives the member. For a member who does not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

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 COLA based on funds available in the Indexing Fund (see Note 12). As of December 31, 2009, COLA has been granted to 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.

Except for real rate of return bonds, which are held directly by the Plan, 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 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 income investments are 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 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 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.

Note 2 (continued)

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 (SCHEDULES A TO D)

	($ thousands)			
	2009		2008	
	Fair Value	%	Fair Value	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 14,307	1.1	$ 10,539	0.9
Universe Fixed Income Pool (b)	105,422	7.8	117,420	9.8
Canadian Long Term Government Bond Pool (b)	185,926	13.8	190,652	15.8
Private Mortgage Pool (c)	57,075	4.3	58,618	4.9
Currency Alpha Pool (e)	2,211	0.2	3,251	0.3
Fixed Income Overlay Strategy Pool (f)	(3,418)	(0.3)	(29,877)	(2.5)
Tactical Asset Allocation Pool	1,692	0.1	878	0.1
	363,215	27.0	351,481	29.3
Real Rate of Return Bonds (d)	73,460	5.5	27,880	2.3
	436,675	32.5	379,361	31.6
Canadian Equities (Schedule B)				
Canadian Equity Master Pool (g)	249,374	18.6	-	-
Canadian Equities Transition Account (h)	8,296	0.6	-	-
Canadian Equity Overlay Strategy Pool (f)	-	-	11,751	1.0
Other Canadian Equity Pools	-	-	181,686	15.1
	257,670	19.2	193,437	16.1
Global Equities (Schedule C)				
Global Equity Master Pool (i)	426,964	31.8	-	-
Portable Alpha U.S. Pool (j)	35,473	2.6	45,065	3.7
Global Equity Overlay Strategy Pool (f)	3,903	0.3	26,289	2.2
Emerging Markets Equity Pool (k)	33,528	2.5	5,469	0.5
Structured Transition Pool	-	-	745	0.1
Other Global Equity Pools	-	-	370,842	30.9
	499,868	37.2	448,410	37.4
Private Real Estate Pool (Schedule D) (l)	73,115	5.4	113,600	9.5
Private Income Pools (m)	44,220	3.3	35,654	3.0
Timberland Pools (n)	8,131	0.6	7,627	0.6
Global Private Equities (o)	24,637	1.8	21,613	1.8
Total investments	$ 1,344,316	100.0	$ 1,199,702	100.0

Note 3 (continued)

a) The Consolidated Cash Investment Trust Fund is managed with the objective 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.

b) The Universe Fixed Income Pool (UFIP) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Universe Bond Index and the DEX Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The UFIP portfolio is comprised of Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of commercial mortgage loans, provincial bond residuals and specialty mortgages. The Pool invests primarily in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

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

e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, Europe, Australasia and the Far East (EAFE) equities, major foreign currencies and styles and sectors. At December 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.

g) On July 31, 2009, the Plan consolidated its holdings in various Canadian public equity pools and invested in the newly created Canadian Equities Master Pool (CEMP). CEMP owns all the units of the following pools:

	Percent of CEMP	
	2009	2008
Canadian Equities Index Pool	40.3	-
Canadian Quantitative Strategies Pool	32.1	-
Canadian External Managers Pool	27.6	-
	100.0	-

CEMP provides participants with the opportunity to gain broad investment exposure to Canadian public equity markets by investing in directly held public equities and structured equity products.

CEMP has a performance objective to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool gains exposure to the Canadian public equity market through a structured investment implementation and a quantitative minimum variance implementation, and uses an overlay strategy to manage the overall risk exposure. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in Canadian equities. Through the use of interest rate swaps FRNP provides investment opportunities in floating rate instruments with remaining term-to-maturities of five years or less.

h) The Canadian Equities Transition Account holds cash and one Canadian equity investment in the financial sector.

Note 3 (continued)

i) On July 31, 2009, the Plan consolidated its holdings in various U.S. and Non-North American public equity pools and invested in the newly created Global Equities Master Pool (GEMP). GEMP owns all the units in the following pools:

	Percent of GEMP	
	2009	2008
Global External Managers Pool	43.0	-
Global Equities Index Pool	35.8	-
North American Concentrated Equity Pool	18.7	-
Global Equities Overlay Pool	1.8	-
EAFE Quantitative Equity Strategies	0.7	-
	100.0	-

GEMP provides participants with the opportunity to gain broad investment exposure to global public equity markets by investing in directly held public equities, structured equity products and concentrated equities.

GEMP has a performance objective to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) World Total Return Index over a four-year moving average period. The Pool gains exposure to global equity markets in developed countries through a structured investment implementation and uses an overlay strategy to manage the overall risk exposure. The Pool's North American concentrated equity strategy holds larger positions in mid size Canadian and American companies ranging from 5% to 20% of outstanding common shares. The Pool's investment in units of FRNP is used as the underlying securities to support the index swaps of the Pool.

j) The Portable Alpha US Pool provides exposure to the global equity market by replicating the MSCI World Total Return Index with MSCI World Total Return index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. At December 31, 2009 the performance objective is to provide returns higher than the total return of the MSCI World Total Return Index over a four-year period.

k) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

l) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies, which have issued to the Pool, 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. The Pool is intended to provide diversification from the securities market.

m) Private Income Pools are managed with the objective of providing investment return comparable to the combined DEX Real Return Bond Index and MSCI World Index at December 31, 2009. The Pool invests in infrastructure related projects that are structured to provide high current income.

n) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land in British Columbia. At December 31, 2009 the performance objective is to earn a return higher than the combined DEX Real Return Bond Index and MSCI World Index at December 31, 2009

o) The Global Private Equity Pool is managed with the objectives of providing investment returns comparable to the combined MSCI World Index and Consumer Price Index plus 8% at December 31, 2009. The Foreign Private Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal 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 long-term benchmark policy asset mix for investments:

Foreign equities	37.0%
Fixed income securities	27.0%
Canadian equities	18.0%
Real estate	7.0%
Real return bonds	5.0%
Private income	3.5%
Private equities	2.0%
Timberland	0.5%

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified time period.

Note 5 (continued)

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009:

($ thousands)

	2009					2008	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
		%					
Equity index swap contracts	99	1	-	$ 263,216	$ 5,202	$ 295,033	$ 3,478
Forward foreign exchange contracts	100	-	-	214,897	2,420	113,003	(2,993)
Futures contracts	100	-	-	146,898	9,799	58,345	8,202
Credit default swap contracts	31	38	31	92,802	(658)	175,941	(4,001)
Swap option contracts	100	-	-	65,126	(476)	-	-
Interest rate swap contracts	23	66	11	61,739	(2,436)	88,030	(4,380)
Cross-currency interest rate swaps	52	30	18	41,332	754	69,902	(2,211)
Bond index swap contracts	100	-	-	3,878	(35)	7,994	210
				$ 889,888	$ 14,570	$ 808,248	$ (1,695)

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

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 Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 CONTRIBUTIONS RECEIVABLE

($ thousands)

	2009	2008
Employers	$ 1,617	$ 1,529
Employees	1,481	1,399
Province of Alberta	499	378
	3,597	3,306

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, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $1,722,608 (2008: $1,632,970) 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 major assumptions used for accounting purposes were:

	2009	**2008**
	%	
Investment return	6.90	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.

b) NET EXPERIENCE LOSSES

Net experience losses of $101,482 (2008 $nil) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 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, 2009:

	($ 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	86,000	0.0
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	32,000	1.5
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	227,000	3.4

* The current service cost as a % of pensionable earnings as determined by the December 31, 2008 valuation was 17.27%.

** 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 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, 2009:

	($ thousands)			
	2009			2008
	Pre-1992	Post-1991	Total	Total
Plan Fund net assets available for benefits	$ 573,691	$ 752,330	$ 1,326,021	$ 1,188,138
Plan Fund accrued benefits	783,958	916,990	1,700,948	1,618,104
Plan Fund deficiency (Note 14)	$ (210,267)	$ (164,660)	$ (374,927)	$ (429,966)

As at December 31, 2009 the Indexing Fund held investments of $21,660 (2008: $14,866) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is $nil (2008: $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 (LOSS)

a) INVESTMENT INCOME (LOSS)

Net investment income (loss) is comprised of the following:

	($ thousands)	
	2009	2008
Investment income (loss)		
Net realized and unrealized gain (loss) on investments including those arising from derivative transactions	$ 120,919	$ (310,073)
Interest income	25,048	33,149
Dividend income	14,520	14,902
Real estate income	4,037	5,258
Securities lending income	462	1,159
	164,986	(255,605)
Investment expenses	(4,793)	(4,133)
Net investment income (loss)	$ 160,193	$ (259,738)

Note 9 (continued)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	($ thousands) 2009	($ thousands) 2008
Global equities	$ 71,946	$ (172,183)
Canadian equities	69,034	(93,493)
Fixed income securities	26,633	53
Private income	617	3,049
Timberland	(431)	(1,145)
Private equites	(1,850)	(1,905)
Private real estate	(5,756)	5,886
Net investment income (loss)	$ 160,193	$ (259,738)

The following is a summary of the investment performance results attained by the Plan:

	2009	2008	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return	Sixteen -Year Compound Annualized Return
Time-weighted rates of return*					
Actual gain (loss)	13.3%	(17.7%)	2.2%	4.5%	6.8%
*Policy Benchmark gain (loss)***	13.5%	(14.3%)	2.8%	4.5%	6.9%
Value added (lost) by investment manager	(0.2%)	(3.4%)	(0.6%)	0.0%	(0.1%)

* 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).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determinaton 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.

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 the 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.

Note 9 (continued)

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands)	
	2009	2008
Total investment expenses	$ 4,793	$ 4,133
Investment expenses as a percentage of net assets	0.36%	0.34%
Investment expenses per member	$ 797	$ 730

NOTE 10 CONTRIBUTIONS

	($ thousands)	
	2009	2008
Current and optional service		
Employers	$ 28,956	$ 26,942
Employees	26,250	24,578
Unfunded liability		
Employers	3,528	3,323
Employees	3,528	3,323
Province of Alberta	3,644	3,433
Transfers from other plans (net)	338	364
	$ 66,244	$ 61,963

NOTE 11 MEMBER SERVICE EXPENSES

	($ thousands)	
	2009	2008
General administration costs	$ 1,136	$ 950
Actuarial fees	62	70
	$ 1,198	$ 1,020
Member service expenses per member	$ 199	$ 180

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 12 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are $5,991 (2008: 5,153) or $996 (2008: $910) per member and 0.44% (2008: 0.43%) of net assets under administration.

NOTE 13 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

	2009	2008
During 2009, the following amounts were paid:		
Remuneration		
Chair	$ 7,634	$ 5,826
Members	33,386	27,240
Travel, training and conference expenses		
Chair	5,727	886
Members	28,719	37,627

NOTE 14 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, 2009, 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 15 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 $1,371,637 at December 31, 2009 (2008: $1,321,800).

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, 2009 (see Note 1(b)).

NOTE 16 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2009 presentation.

NOTE 17 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.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 16,748	$ 23,093
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	99,061	40,076
Provincial		
Alberta, direct and guaranteed	16	32
Other Provincial, direct and guaranteed	141,951	138,159
Municipal	4,698	4,431
Corporate	171,523	173,609
	417,249	356,307
Receivable from sale of investments and accrued investment income	4,623	3,631
Accounts payable and accrued liabilities	(1,945)	(3,670)
	2,678	(39)
	$ 436,675	$ 379,361

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in deposits and fixed income securities is reduced by the notional amount of derivative contracts totalling $3,418 (2008: $33,099).

(b) Fixed income securities held as at December 31, 2009 had an average effective market yield of 5.0% per annum (2008: 5.6% per annum). The following term structure of these securities as at December 31, 2009 is based on principal amount:

	2009	**2008**
	%	%
under 1 year	1	2
1 to 5 years	15	17
6 to 10 years	19	14
11 to 20 years	22	14
over 20 years	43	53
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 3,702	$ 4,818
Public equities (a) (b)		
Consumer discretionary	16,658	12,130
Consumer staples	12,001	6,484
Energy	59,401	49,112
Financials	73,763	50,125
Health care	2,354	1,264
Industrials	18,700	14,616
Information technology	8,217	6,485
Materials	41,333	29,682
Telecommunication services	13,297	10,701
Utilities	6,361	2,922
	252,085	183,521
Pooled investment funds	-	5,595
Receivable from sale of investments and accrued investment income	3,864	4,309
Accounts payable and accrued liabilities	(1,981)	(4,806)
	1,883	(497)
	$ 257,670	$ 193,437

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swaps and futures contracts totalling $82,095 (2008: $71,188).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's Toronto Stock Exchange Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN GLOBAL EQUITIES

Schedule C

	($ thousands) Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 6,172	$ 8,755
Public equities (a) (b)		
Consumer discretionary	49,024	39,101
Consumer staples	47,534	49,992
Energy	46,966	47,653
Financials	98,004	74,111
Health care	42,114	56,359
Industrials	68,780	50,030
Information technology	52,589	46,738
Materials	26,040	21,583
Telecommunication services	20,256	29,419
Utilities	16,293	21,508
	467,600	436,494
Pooled investment funds	-	2,900
U. S. Hedge Funds	26,936	-
	494,536	439,394
Receivable from sale of investments and accrued investment income	3,032	4,807
Accounts payable and accrued liabilities	(3,872)	(4,546)
	(840)	261
	$ 499,868	$ 448,410

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in global public equities includes the notional amount of global equity index swap and futures contracts totalling $184,612 (2008: $232,459).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the MSCI World Total Return Index. Global investments by geographic region are as follows:

	($ thousands) Plan's Share	
	2009	**2008**
United States	$ 228,456	$ 217,453
Europe, Australasia and the Far East	208,249	216,472
Emerging markets	36,969	5,469
Canada	20,862	-
	$ 494,536	$ 439,394

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule D

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	$ 1,900	$ 249
Real estate (a)		
Office	31,678	51,127
Retail	22,906	32,883
Industrial	9,281	17,796
Residential	4,200	6,913
	68,065	108,719
Pooled investment funds	2,751	3,854
Accrued income and accounts receivable	399	778
	$ 73,115	$ 113,600

(a**)** The following is a summary of the Plan's investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2009	**2008**
Ontario	$ 35,377	$ 55,739
Alberta	25,519	41,194
Quebec	5,728	9,435
British Columbia	1,441	2,351
	$ 68,065	$ 108,719

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the Plan's 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 financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]
Acting Auditor General

Edmonton, Alberta
April 21, 2010

Note: The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31

	($ thousands) 2009	2008
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 14,551	$ 11,193
Refundable income tax (Note 1(f) and Note 6)	16,348	13,778
Contributions receivable	104	25
Other receivables	36	9
	31,039	25,005
Liabilities		
Income tax payable	41	15
Other payables	8	7
Liability for investment purchases	300	-
	349	22
Net assets available for benefits	30,690	24,983
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	(104,478)	(58,676)
SRP Reserve Fund (Note 8)	34,272	26,582
Surplus (deficiency) at end of year	$ (39,516)	$ (7,111)

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

Statements of Changes in Net Assets Available for Benefits

Years ended December 31

	($ thousands) 2009	2008
Increase in assets		
Contributions (Note 9)	$ 6,449	$ 6,141
Net investment income (loss) (Note 10)		
Investment income (loss)	1,022	(159)
Investment expenses	(43)	(32)
	7,428	5,950
Decrease in assets		
Benefits and refunds	1,307	846
Administration expenses (Note 11)	414	304
	1,721	1,150
Increase in net assets	5,707	4,800
Net assets available for benefits at beginning of year	24,983	20,183
Net assets available for benefits at end of year	$ 30,690	$ 24,983

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

Notes to the Financial Statements

Years ended December 31
(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 and accordingly 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, 2009 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.

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.

Note 1 (continued)

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.

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, credit default swaps, cross-currency interest rate swaps, futures contracts 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) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

Note 2 (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) 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 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 PORTFOLIO INVESTMENTS (SCHEDULE A)

	($ thousands)					
	2009			**2008**		
	Fair Value			**Fair Value**		
			%			%
Fixed Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$	682	4.7	$	516	4.6
Universe Fixed Income Pool (b)		11,408	78.4		9,025	80.6
Real rate of return bonds (c)		2,461	16.9		1,652	14.8
	$	14,551	100.0	$	11,193	100.0

a) The Consolidated Cash Investment Trust Fund is managed with the objective 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.

b) The Universe Fixed Income Pool (UFIP) is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Minister has established a benchmark policy asset mix of 45% fixed income instruments and 55% equities.

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 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. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. A bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the specified index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

Note 5 (continued)

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009.

($ thousands)

	2009					2008	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
		%					
Credit default swap contracts	29	38	33	$ 9,430	$ (68)	$ 12,145	$ (193)
Swap option contracts	100	-	-	709	1	-	-
Cross-currency interest rate swaps	11	28	61	655	64	536	(35)
Bond index swap contracts	100	-	-	420	(4)	614	16
Interest rate swap contracts	-	77	23	369	8	569	(1)
Forward foreign exchange contracts	100	-	-	330	8	167	(19)
Futures contracts	100	-	-	136	10	62	4
				$ 12,049	$ 19	$ 14,093	$ (228)

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

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 Plan attempts to limit its credit exposure by dealing with counter-parties believed to have a good credit standing.

NOTE 6 REFUNDABLE INCOME TAX

($ thousands)

	2009	2008
Refundable income tax at beginning of year	$ 13,778	$ 11,089
Tax on employees and employers contributions received	3,185	3,070
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(615)	(381)
Refundable income tax at end of year	$ 16,348	$ 13,778

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2009 as at December 31, 2008 by Aon Consulting Inc. and was then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $104,478 (2008: $58,676) 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 major assumptions used for accounting purposes were:

	2009	2008
	%	
Discount rate *	4.70	4.50
Inflation rate	2.25	2.25
Investment rate of return	6.30	6.00
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) 2009	2008
Actuarial value of accrued benefits at beginning of year	$ 58,676	$ 48,462
Interest accrued on opening liability for accrued benefits	4,501	2,379
Benefits earned	11,825	9,646
Experience losses (gains)	36,094	-
Net change due to changes in actuarial assumptions	(5,311)	(965)
Benefits and refunds paid	(1,307)	(846)
Actuarial value of accrued benefits at end of year	$ 104,478	$ 58,676

Experience losses of $36,094 (2008: nil) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 extrapolation for reporting compared to actual results.

Note 7 (continued)

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, 2009:

	($ 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	8,171	1,033
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	25,055	10,211
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	21,891	3,591

* 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. Effective April 1, 2007, as recommended by the Plan's actuary, the employer contribution rate increased from 5.8% to 11.4% 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, 2009, the SRP Reserve Fund had net assets with fair value totalling $34,272 (2008: $26,582), comprising of $34,261 (2008: $26,568) in portfolio investments and $11 (2008: $14) in receivables. The increase during the year of $7,690 (2008: decrease $3,207) is attributed to contributions from employers of $3,358 (2008: $3,364) and investment gain of $4,332 (2008: loss $6,571).

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2009	**2008**
Current and optional service		
Employers	$ 3,240	$ 3,074
Employees	3,209	3,067
	$ 6,449	$ 6,141

NOTE 10 NET INVESTMENT INCOME (LOSS)

a) INVESTMENT INCOME (LOSS)

Net investment income (loss) of the Plan is comprised of the following:

	($ thousands) 2009	2008
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	$ 426	$ (610)
Interest income	592	446
Security lending	4	5
	1,022	(159)
Investment expenses (Note 10(b))	(43)	(32)
Investment income (loss)	$ 979	$ (191)

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 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.

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands) 2009	2008
Investment expenses	$ 43	$ 32
Investment expenses as a percentage of net assets	0.30%	0.26%
Investment expenses per member	$ 28	$ 22

NOTE 11 ADMINISTRATION EXPENSES

Administration expenses of $414 (2008: $304) 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 $457 (2008: $336) or $292 (2008: $232) per member and 1.49 % (2008: 1.34%) of net assets under administration.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2009 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.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands) Plan's Share 2009	2008
Deposits and short-term securities	$ 874	$ 878
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	3,956	3,277
Provincial		
Alberta, direct and guaranteed	2	2
Other, direct and guaranteed	2,198	1,315
Municipal	64	1
Corporate, public and private	7,388	5,871
	13,608	10,466
Receivable from sale of investments and accrued investment income	270	81
Accounts payable and accrued liabilities	(201)	(232)
	69	(151)
	$ 14,551	$ 11,193

(a) Fixed income securities held as at December 31, 2009 had an average effective market yield of 4.5% per annum (2008: 5.4% per annum). The following term structure of these securities as at December 31, 2009 was based on the principal amount:

	2009 %	2008 %
under 1 year	4	4
1 to 5 years	29	30
6 to 10 years	28	26
11 to 20 years	18	18
over 20 years	21	22
	100	**100**

Appendix

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

A blended rate is an average (rounded) of the domestic debt credit ratings issued by the following credit rating agencies: Standard and Poor's Rating Services; Moody's Investors Service Ltd.; and Dominion Bond Rating Service.

Source

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.

Notes

This is an unaudited result as it was a new measure introduced in 2008-09.

2.a Provincial and municipal tax load as a percentage of the Canadian average (interprovincial rank)

Methodology

As part of the federal Equalization program, each year provinces report their tax revenues to the federal government, with the federal government calculating a tax base for each of the revenue sources (e.g., the tax base for corporate income taxes is corporate profits). The following methodology is then used to calculate tax load as a percentage index for each province:

- National-average average tax rates for each tax category are calculated by dividing the total national tax revenue for that category by its national tax base.
- The tax bases for each province are multiplied by the national average tax rates to determine the revenues the province would have generated at national average tax rates.
- *Provincial and municipal tax load* is equal to the ratio of the actual tax revenue generated by the province and its municipalities relative to the revenue that would have been generated at national average tax rates, multiplied by 100.

Source

The tax load measurements are calculated by Alberta Finance and Enterprise from revenue and tax base data obtained from the Federal Department of Finance (December 2009 estimates). The December estimates received from the federal government include adjustments for prior years, as the data for any year are not finalized until 2½ years after the fiscal year end.

2.b Provincial tax load on businesses

Methodology

As part of the federal Equalization program, each year provinces report their tax revenues to the federal government, while the federal government calculates a tax base for each of the revenue sources (e.g. the tax base for corporate income taxes is corporate profits). Provincial tax load for businesses taxes (business income taxes, capital taxes and insurance corporation taxes) is calculated for each province using the following methodology:

- National-average average tax rates for each tax category are calculated by dividing the total national tax revenue for that category by its national tax base.
- The tax base for each province is multiplied by the national average tax rate to determine the revenue the province would have generated at the national average tax rate.
- *Provincial tax load* is equal to the ratio of the actual business tax revenue generated by the province to the revenue the province would have generated at national average tax rates, multiplied by 100.

Source

The tax load measurements are calculated by Alberta Finance and Enterprise from revenue and tax base data obtained from the Federal Department of Finance (December 2009 estimates).

3.a Real Domestic Product of manufacturing and business and commercial services

- Billions
- Per cent change from previous year

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 four industries are combined in this performance measure: manufacturing; information and cultural industries; professional, scientific and technical services; and administrative and support, waste management and remediation services.

Industry	Aggregate Classification	GDP in Millions of Dollars (2009)
Manufacturing	Manufacturing	$13,291.8
Information and cultural industries	Business and Commercial	$5,137.9
Professional, scientific and technical services	Business and Commercial	$9,302.5
Administrative and support, waste management and remediation services	Business and Commercial	$3,588.8

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. Current dollar GDP figures for this performance measures are derived from the GDP by industry table and are only available to the year 2006. 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.

Notes

- The targets are based on an annual per cent change. The targets are calculated by multiplying the unrounded targets from the previous year.
- In November 2007, all real Gross Domestic Product (GDP) estimates were revised by Statistics Canada with the base year changing from 1997 to 2002. Statistics Canada typically changes the base year for real GDP estimates every five years and this leads to revisions in the real GDP dollar values.

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).
- Billions
- Per cent change from previous year

Methodology

The value of new capital expenditures on construction, machinery and equipment in Alberta's manufacturing and service industries. Manufacturing is a separate industry (with a value of $1.39 billion in 2009) and the sub-industries included under service industries are:

Capital expenditures (Alberta)	In Billions of Dollars (2009)
Transportation and Warehousing	$4.25
Information and Cultural Industries	$1.18
Wholesale Trade	$0.77
Retail Trade	$1.11
Finance and Insurance	$1.77
Real Estate and Rental and Leasing	$2.32
Professional, Scientific and Technical Services	$0.57
Management of Companies and Enterprise	$0.03
Administrative and Support, Waste Management	$0.25
Arts, Entertainment and Recreation	$0.29
Accommodation and Food Services	$0.99
Other Services	$0.30

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 and reported in February. In 2009, the utilities sector was excluded from the calculations so that this measure aligns more closely with the international exports performance measure for the department of International and Intergovernmental Affairs in "Measuring Up". The export measure includes exports of manufactured goods and services, and excludes exports by the utilities sector. As a result, the values of the outcomes were reduced by between 10 and 20 per cent.

Source

Statistics Canada, Private and Public Investment in Canada, Intentions

Notes

The targets are based on an annual per cent change. The targets are calculated by multiplying the unrounded targets from the previous year.

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 TRA's operating budget.

Source

Data comprises a summary of revenue obtained through the revision of returns and claims, the collection of overdue accounts, and recoveries due to audit activity. Data is generated through existing ORACLE and IMAGIS system reports, and ad hoc reporting created for the purpose. Administrative costs are obtained through the GOA IMAGIS expense tracking system.

Notes

Through a combination of audit activities, collection of overdue accounts, and the revision of returns and claims, the Tax and Revenue Administration Division 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

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 will earn 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 selects 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. 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 product of FMC by the Valuation and Fund Accounting Group of the AIMCo's Investment Administration Division. 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 custodian and benchmark providers. CPI is obtained from either the Bank of Canada web site or from Bloomberg.

FMC – Sylvan module:

Monthly data downloaded to Excel spreadsheet From FMC–Sylvan and annualized manually to check the accuracy and subsequently compared with FMC–Sylvan annualized download

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 and pension funds (the clients). 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 clients 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 clients funds are calculated as weighted averages of returns of pools in which the funds are invested. The weights used in calculations are actual weights of each pool in each client fund portfolio. This performance measure was implemented in the fiscal year 2004-05. Five-year annualized market value rate of return of each fund is compared against the five-year annualized policy asset mix rate of return plus 1.0 per cent for that fund in the fiscal year 2009-10. The performance measure and target has now been in place for five years and the performance measure will stay fixed until further change is approved and will be calculated as an annualized five-year weighted average market value rate of return on each endowment fund compared against the annualized five-year weighted average policy asset mix rate of return plus some premium as approved by the ministry's business plan.

Description of Results

Five-year market value rate of return for the endowment funds and their benchmark plus 1.0 per cent as of March 31, 2010:

Endowment fund	Five-year annualized market value rate of return (per cent)	Five-year annualized market value rate of return of the policy benchmark plus 1 per cent
Alberta Heritage Savings Trust Fund	4.4	5.7
Alberta Heritage Foundation for Medical Research Endowment Fund	3.8	5.4
Alberta Heritage Scholarship Fund	4.5	5.9
Alberta Heritage Science and Engineering Research Endowment Fund	3.6	5.2

Five-year market value rate of return for the pension funds and their benchmark plus 1.0 per cent as of March 31, 2010:

Pension Fund	Five-year annualized market value rate of return (per cent)	Five-year annualized market value rate of return of the policy benchmark plus 1 per cent
Local Authorities	4.75	5.32
Management Employees	4.69	5.01
Provincial Judges and Masters in Chambers	4.30	4.69
Provincial Judges and Masters in Chambers Unregistered	1.15*	1.80*
Public Service	3.77	3.99
Supplementary Retirement Plan for Public Service Managers (closed)	3.76	4.43
Special Forces	4.17	4.37
Universities Academic	4.26	4.47

Source

Fund returns and their benchmarks are calculated within the Sylvan product of FMC by the Valuations and Fund Accounting Group of the AIMCo's Investment Administration Division. 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 custodian and benchmark providers.

FMC – Sylvan module:

Monthly data downloaded to Excel spreadsheet From FMC – Sylvan and annualized manually to check the accuracy and subsequently compared with FMC – Sylvan annualized download.

Alberta Investment Management Corp.

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.

*These are 4 year returns as AIMCo began to calculate these returns in April 2006.

5.c Client satisfaction with the services provided by the Risk Management and Insurance Division (survey issued every three years)

Notes

The 2006 – 07 survey result is unaudited.

6.a Percentage of private sector pension plans that meet minimum funding standards

Methodology

The *Employment Pension Plans Act* requires that pension plans meet minimum funding requirements by making the following contributions:

- Employer Current Service Contributions (all plans);
- Unfunded Liability Payments (defined benefit provisions only);
- Solvency Deficiency Payments (defined benefit provisions only).

The actual contributions made are reported in the annual information filings submitted by every pension plan. The contribution requirements are set out in the pension plan text and, where applicable, the actuarial valuation report filing.

Contribution shortfalls are identified:

- During regular compliance reviews of the above filings;
- By the Risk Assessment System; or
- In writing by the plan fund holder, when a plan sponsor fails to remit Contributions within the prescribed deadline.

Source

PBIS (the Pension Benefits Information System) records data collected from annual information returns, actuarial valuation reports, and other related pension plan documents. The notifications sent by plan fund holders when the plan sponsor fails to remit contributions by the deadline are also recorded in the PBIS. The Risk Assessment System utilizes the data entered into the PBIS to indentify issues with the funding requirements. As well, the Superintendent performs a number of on-site examinations where staff will go to the offices of plan sponsors and review relevant documents for compliance with the Act.

Notes

Current service cost and any required deficit payments must be paid into the pension plan fund within the timelines set by legislation

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6.b Inter-provincial/territorial securities regulatory system

Methodology

Develop consensus through

- Extensive discussions among provincial/territorial government officials and the CSA (provincial/territorial securities regulators)
- Meetings with provincial/territorial Ministers responsible for securities regulation.

Source

- *Securities Act*, as amended by Bill 38, *Securities Amendment Act*, 2008, Bill 17, *Securities Amendment Act, 2009*, and Bill 13, *Securities Amendment Act, 2010*
- Decisions from Council and Taskforce
- Common Taskforce briefings
- CSA quarterly updates and other briefings

7.a Improved pension plan governance

Methodology

- Appropriately authorized operating protocols are in place for the Public Service Pension Plan, Management Employees Pension Plan and Special Forces Pension Plan between the Minister, the pension service agencies (i.e., Alberta Pensions Services Corporation (APS) and ALAPP Corporation) and the pension boards.
- Governance arrangements with the pension service agencies (i.e., APS and ALAPP Corporation) and the pension boards are consistent with the *Alberta Public Agencies Governance Act* (APAGA).

Source

- Operating Protocols and other governance documents.
- APAGA, Public Agencies Governance Framework and Agency Governance Secretariat templates.

8.a ATB Financial return on average assets

Methodology

For the fiscal year ended March 31, 2010: Adjusted Net Income/Average Total Assets

Source

Adjusted Net income– as per annual report (Adjusted net income is a non-GAAP measure which excludes recovery (provision for loss) on asset-backed commercial paper (ABCP) and payment in lieu of tax (PILOT). Average assets per internal reporting systems, which calculate average assets on a daily basis.

8.b Cost to Alberta local authorities of borrowing from Alberta Capital Finance Authority (ACFA) compared to other municipality/aggregating agencies for a comparable loan

Methodology

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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