Alberta
Freedom To Create. Spirit To Achieve.

Finance and Enterprise

Annual Report
2008–2009

Government of Alberta

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Finance and Enterprise

Annual Report
2008-09

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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 30, 2009 contains the Ministers' accountability statements, the consolidated financial statements of the province and *The Measuring Up* report, which compares the 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 comparison of the ministry business plan. This ministry annual report also includes:

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

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2009, 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 8th, 2009 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

"*Original signed by**

Iris Evans
Minister of Finance and Enterprise

September 8th, 2009

Message from the Minister

The 2008-09 year presented unprecedented challenges to governments around the world. The year started off on a strong note with oil and gas prices pushing toward an all-time high and continued robust economic growth in Alberta. By the end of the first quarter, the province was forecasting record energy revenues and a record surplus. The picture changed dramatically in the following months as Alberta, like the rest of the world, started feeling the effects of failing markets and plummeting energy prices. By year's end, Alberta had posted its first deficit in 15 years and saw its economy shrink into recession.

Despite this economic uncertainty, Alberta came through with a solid budget for 2009, several important pieces of legislation, and substantial work on initiatives to improve Alberta's fiscal situation. This progress will help ensure Alberta maintains its low tax regime, give Albertans more opportunities to experience financial security, and support strong and competitive industries. These achievements were the result of hard work and prudent decisions by Alberta Finance and Enterprise.

When times got tough, our department came through. We developed a budget that responded to the priorities of Albertans and addressed the economic uncertainty facing the province – one that included a new, simpler, more flexible and transparent fiscal framework.

Over the last year, the ministry was also busy developing and drafting several pieces of legislation which included amendments to help maintain Alberta's low personal and corporate taxes, helps cut down on the illegal distribution of tobacco, and ensure the implementation of the Teachers' Pension Plan agreement in a timely manner. Each of these issues is a priority for Albertans and improvements made will have a lasting effect on the long-term financial stability of our province.

Alberta Finance and Enterprise has also demonstrated its concern for the financial security of retirees. Substantial strides were made to improve Alberta's pension system. Through amendments to the Employment Pension Plans Regulation, short-term funding relief for plan sponsors, and ongoing work with other provinces, the financial future of retirees is becoming increasingly more secure. We are emerging as leaders in this area and continued work will benefit Albertans and possibly all Canadians.

As seen from the many accomplishments over the last year, Ministry of Finance and Enterprise employees are committed to providing high-quality service to Albertans. I am proud to be part of such a dedicated team.

Looking ahead, we will expand on these priorities as we continue to build a strong Alberta with opportunities to grow. The success and hard work from the past year will create a solid economic position for 2009-2010.

"*Original signed by**

Iris Evans
Minister of Finance and Enterprise

Management's Responsibility for Reporting

The Ministry of Finance and Enterprise includes:

Alberta Cancer Prevention Legacy Fund
Alberta Capital Finance Authority
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 Insurance Council
Alberta Investment Management Corporation
Alberta Local Authorities Pension Plan Corporation
Alberta Pensions Administration Corporation
Alberta Risk Management Fund
Alberta Securities Commission
Alberta Treasury Branches
ATB Insurance Advisors Inc.
ATB Investment Management Inc.
ATB Investment Services Inc.
ATB Securities Inc.
Credit Union Deposit Guarantee Corporation
Department of Finance and Enterprise
Gainers Inc.
N.A. Properties (1994) Ltd.
Provincial Judges and Masters in Chambers Reserve Fund
Supplementary Retirement Plan Reserve Fund

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 with 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 2008. 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.

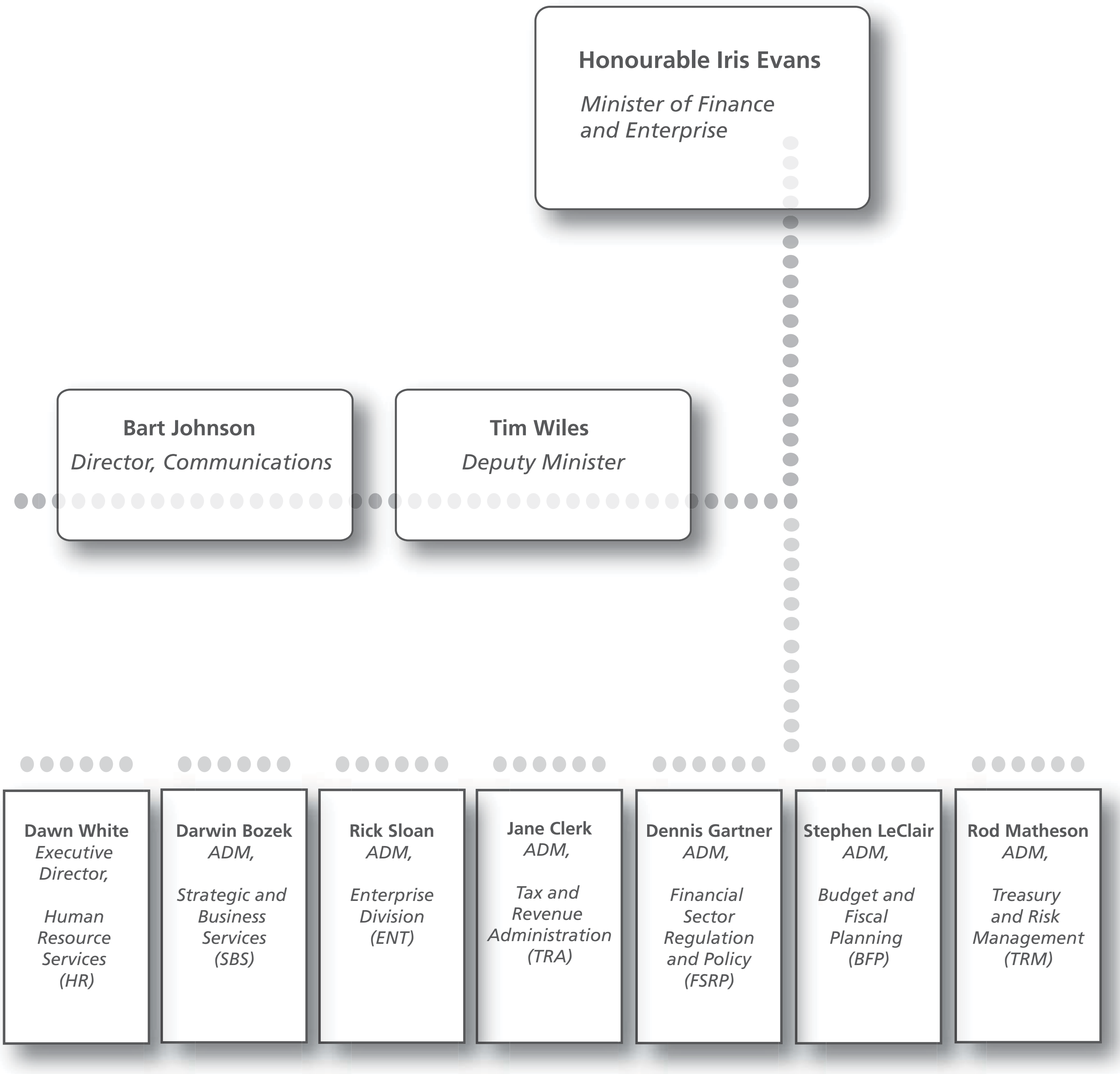
Original signed by

Tim Wiles
Deputy Minister of Finance and Enterprise
September 8th, 2009

Overview

- Organizational Chart
- Ministry Vision, Mission, Core Businesses and Goals
- Relationship of Finance Department and Reporting Entities to Core Businesses
- Operational Overview
- Summary of Key Activities in the Past Year

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: Tax and Revenue Management

Goal 3 – Revenue programs are administered fairly, efficiently, and effectively

Core Business: Investment, Treasury and Risk Management

Goal 4 – Sound financial management and investment policy

Goal 5 – Effective leadership in risk management

Core Business: Financial Sector and Pensions

Goal 6 – Effective regulation of private sector pension, insurance, and financial products and services

Goal 7 – Accessible financial services for Albertans and local authorities

Goal 8 – An effective and efficient securities regulatory system

Goal 9 – Sustainable public sector pension plans in Alberta

Core Business: Enterprise

Goal 10 – Alberta has a competitive and sustainable economy

Goal 11 – Alberta has strong and vibrant regions and communities

Relationship of Finance Department and Reporting Entities to Core Businesses

Core Businesses	**Investment, Treasury and Risk Management**	**Financial Sector and Pensions**
Department and Reporting Entities*	• Treasury Management	• Financial Sector Regulation and Policy
	Agencies, Boards and Commissions	**Agencies, Boards and Commissions**
	• Alberta Investment Management Corporation	• Alberta Pensions Administration Corporation
	• Alberta Capital Finance Authority	• Alberta Local Authorities Pension Plan Corporation
	Funds	• Alberta Treasury Branches
	• Alberta Risk Management Fund	• Automobile Insurance Rate Board
	• Alberta Heritage Foundation for Medical Research Endowment Fund	• Alberta Insurance Council
	• Alberta Heritage Scholarship Fund	• Alberta Securities Commission
	• Alberta Heritage Science and Engineering Research Endowment Fund	• Credit Union Deposit Guarantee Corporation
	• Alberta Cancer Prevention Legacy Fund	

***Note: Only includes core businesses that have department and reporting entities**

Operational Overview

Finance and Enterprise			www.finance.gov.ab.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, tax and strategic allocation issues. Its major output is the province's annual budget. BFP has four branches: Budget Planning and Integration, Economics and Statistics, Tax Policy and Strategic Resource Allocation.

Budget Planning and Integration (BPI)

Through Budget Planning and Integration, BFP prepares fiscal outlooks as part of the Treasury Board, Cabinet and Caucus planning process. This branch also determines fiscal room available to the government and recommends fiscal policy options to encourage fiscal sustainability. As well, BPI monitors and recommends changes to the government's legislated fiscal framework. Based on government decisions, BPI prepares the annual budget and updates it quarterly. This branch works closely with the Treasury Board ministry.

Economics and Statistics (ES)

The Economics and Statistics branch provides economic analysis of major issues influencing Alberta's economy. ES prepares economic forecasts of the Alberta economy based on global developments and uses those forecasts to prepare revenue projections for income taxes. The branch also coordinates Alberta's position on federal-provincial fiscal transfers, provides selected statistical services for Finance and Enterprise and other ministries including demographic projections, and assists other departments in developing sector policies.

Tax Policy (TP)

The Tax Policy branch monitors tax developments in Canada and abroad for application in Alberta. TP also reviews the competitiveness of Alberta's tax system against leading systems and recommends tax policy options to keep Alberta competitive. Additionally, the branch provides advice to government departments on how to use the tax system to further Alberta's economic and social development, provides direction on rebate schemes, and liaises with the Energy department on royalty issues.

Strategic Resource Allocation (SRA)

Strategic Resource Allocation analyzes Alberta's spending patterns to ensure they meet fiscal objectives of sustainability and the government's strategic objectives. This branch also develops long-term forecasts of Alberta's future spending based on economic, demographic, social and other trends, and investigates innovative long-term fiscal sustainability ideas being pursued by other governments. SRA also assists other government departments in analyzing program and activity cost drivers, and participates on major government-wide policy initiatives with significant fiscal implications.

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 contributes to the development of Alberta tax policy. TRA will be administering the new Alberta Scientific Research and Experimental Development tax credit program.

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.

Tax Services (TS)

Through Tax Services, TRA partners with other Alberta ministries and other provincial and federal tax administrations on policy development, improvements to compliance, and implementation of educational strategies for the efficient administration of tax and revenue programs. TS provides information and responses to general enquiries, technical interpretations, ruling services to taxpayers, and administers the dispute resolution process.

Revenue Operations (RO)

The Revenue Operations branch registers corporations, individuals, and trusts for a variety of programs the division administers under the noted legislation. RO maintains taxpayer and claimant accounts, processes tax payments, validates and processes tax returns and rebate claims, and initiates filing compliance and collection actions.

Audit

To ensure compliance with provincial tax legislation, TRA auditors complete desk and field audits of corporate and commodity taxpayers' books and records. If auditors find tax or tax benefit errors, they take remedial action, including reassessment.

Strategic and Client Services (SCS)

The Strategic and Client Services branch supports strategic planning, risk management, business intelligence, and budgeting/forecasting for the division. SCS also ensures taxpayer awareness and education programs are in place for programs, policies and procedures administered by TRA, and manages stakeholder engagement in program and administrative changes.

Business Technology Management (BTM)

Business Technology Management provides TRA staff and taxpayers with the technology and support needed to effectively administer and comply with legislative requirements.

Treasury and Risk Management Division (TRM)

Treasury Management (TM)

Treasury Management 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 (RMI)

Risk Management and Insurance 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. Risk Management Operations assists participants to identify, minimize and, where appropriate, finance adverse effects of accidental loss. Claims Management administers all claims covered under the Province's Risk Management Fund and makes recommendations aimed at reducing risk.

Agencies, Boards, and Commissions

Annual reports of all of the following organizations are available on the respective organization's Internet site, as shown below.

Alberta Investment Management Corporation (AIMCo)	**www.aimco.alberta.ca**
Terrace Building **9515 – 107 Street** **Edmonton, Alberta** **T5K 2C3**	

Alberta Investment Management Corporation (AIMCo) is one of the largest public sector asset managers in Canada with $ 67.7 billion in assets under management as of March 31, 2009. AIMCo acts as the investment manager for pools of capital assigned by statute to the Minister of Finance and Enterprise and for the assets of other provincial public sector bodies, where specific agreements have been made. These include the following:

• Pension Investments	$ 22.8 billion
• Government Investments	$ 43.3 billion
• Other Investments	$ 1.6 billion
Total	$ 67.7 billion

AIMCo provides a comprehensive set of products, including fixed income, public and private equities, infrastructure, timberlands, real estate, commercial mortgages and absolute return strategies. In some cases, specialized private sector investment managers are used to manage specific investment mandates.

Alberta Capital Finance Authority (ACFA)	**www.acfa.gov.ab.ca**
2450 Canadian Western Bank Place **10303 Jasper Avenue** **Edmonton, Alberta** **T5J 3N6**	

The Alberta Capital Finance Authority's (ACFA) mission is to provide local authorities within the province with flexible funding for capital projects at the lowest possible cost. ACFA does this by lending funds to local entities at interest rates based on ACFA's cost of borrowing. Since the obligations of ACFA are unconditionally guaranteed by the Province of Alberta, ACFA is able to borrow in the capital markets at interest rates much lower than those available to local authorities acting independently.

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. The division is the government contact for the following entities that report to the Minister of Finance and Enterprise: Automobile Insurance Rate Board; Alberta Insurance Council; Credit Union Deposit Guarantee Corporation; Alberta Pensions Administration Corporation; Alberta Local Authorities Pension Plan Corporation; ATB Financial; and Alberta Securities Commission. FSRP is divided into the following six areas: Employment Pensions, Insurance, Financial Institutions, Public Sector Pension Policy, Capital Markets Policy and Divisional Support.

Agencies, Boards, and Commissions

Annual reports of all of the following organizations are available on the respective organization's Internet site, as shown below.

Automobile Insurance Rate Board (AIRB)	www.airb.alberta.ca
Terrace Building #200, 9515 – 107 Street Edmonton, Alberta T5K 2C3	

AIRB is responsible for setting premiums annually for compulsory automobile coverage and monitoring optional coverage.

Alberta Insurance Council (AIC)	www.abcouncil.ab.ca
#901 TD Tower, 10088 – 102 Avenue Edmonton, Alberta T5J 2Z1	

AIC is responsible for examining and licensing insurance agents, brokers and adjusters in Alberta and for investigating consumer complaints against insurance companies.

Credit Union Deposit Guarantee Corporation (CUDGC)	www.cudgc.ab.ca
18th floor, 10130 – 103 Street Edmonton, Alberta T5J 3N9	

CUDGC regulates and supervises the business practices of Alberta credit unions and guarantees deposits according to legislation. While CUDGC strives to maintain the Deposit Guarantee Fund at a level that will enable the corporation to independently provide the 100 per cent deposit guarantee, the Government of Alberta will ensure that CUDGC can fulfill its guarantee obligation. The corporation provides strategic and operational advice to Alberta credit union boards and management to facilitate sound business practices.

Alberta Pensions Administration (APA) Corporation	www.apaco.ab.ca
3rd floor, 10611 – 98 Avenue Edmonton, Alberta T5K 2P7	

APA Corporation provides pension administration services to members, boards, employers, and pensioners of Alberta public sector pension plans. Those pension services consist of the collection of pension contributions, maintenance of member accounts, payment of pension benefits, and provision of information.

Services are provided to 481 employers and 285,000 members and pensioners.

Alberta Local Authorities Pension Plan (ALAPP) Corporation	www.lapp.ab.ca
P.O. Box 1315 Edmonton, Alberta T5J 2M8	

ALAPP Corporation was created in December of 2005 for the purpose of providing support to the Local Authorities Pension Plan (LAPP) Board of Trustees in the execution of its legislated objectives set out in the *Public Sector Pension Plans Act.*

ALAPP provides analysis and recommendations on matters related to the legislative obligations of the LAPP Board of Trustees as well as high-level strategic guidance on broader issues that may impact the plan. In fulfilling these roles, ALAPP works closely with the LAPP Board of Trustees, APA Corporation, and other LAPP stakeholders.

Alberta Treasury Branches (ATB)	www.atb.com
9888 Jasper Avenue Edmonton, Alberta T5J 1P1	

ATB is a full-service financial institution based in Edmonton, Alberta. It provides financial services to individuals, small business and the agri-industry in Alberta, and serves 660,000 Albertans in 244 communities through various branches and agencies, as well as through a Customer Contact Centre and the Internet. The repayment of all deposits held by ATB is guaranteed by the province.

Alberta Securities Commission (ASC)	www.albertasecurities.com
4th Floor, 300-5th Ave SW Calgary, Alberta T2P 3C4	

The ASC is the regulatory agency responsible for administering the province's securities laws. Its mission is to foster a fair and efficient capital market in Alberta and to protect investors. As a member of the Canadian Securities Administrators, the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets.

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;
- Provides support to the Regulatory Review Secretariat which leads regulatory reform within the Government of Alberta and oversees the ongoing review of regulations.

Business and Industry

The division works to support key sectors of Alberta's economy by setting out strategic direction for economic development in the province, and contributing to policy development and programs for increased industry productivity and growth.

Industry Development (ID)

The Industry Development Branch engages industry in the development of targeted programs and services to enhance and stimulate productivity, innovation and competitiveness. The branch is active in the sharing of industry best practices, and implementing strategies for industrial growth in the province. ID connects Alberta companies to timely and relevant business intelligence to assist them in making sound business decisions, including: supply chain and feedstock analysis, targeted business development opportunities, and competitiveness reports including sector-level competitive analysis. The branch is a lead advocate for industry development issues within government policy development.

Regional Development Programs and Initiatives

Managing and sustaining the province's growth and development is a major priority of the Alberta government. Currently, Alberta employs a number of economic development strategies designed for rural communities, communities in various economic regions across the province and industry sectors such as manufacturing. Alberta's development strategies have been created with sustainable growth in mind to ensure continued prosperity. The department provides regional support through the following branch.

Regional Development (RD)

Through its Edmonton Corporate Office and 11 regional offices, RD provides Alberta's Regional Economic Development Alliances (REDAs) with staff and financial resources to assist member communities with their efforts to achieve long-term economic viability and prosperity. RD also supports The Business Link to deliver business information to Alberta small and medium sized enterprises, and AlbertaFirst.com to provide business directory and community profile information online. Federal funding enabled the department to provide additional economic development support to regions and communities adversely affected by global economic conditions.

Alberta Economic Development Authority (AEDA)

The Alberta Economic Development Authority works in partnership with the provincial government to provide recommendations and long-term strategic advice on key economic issues. Members of AEDA include business, academic and municipal leaders from across the province. Formed in 1994, AEDA excels at building consensus on issues that affect Alberta's growth and prosperity in all economic areas. AEDA's work helps to increase the province's ability to create new opportunities at home and abroad. AEDA also provides large and small business a direct working link to the Alberta government and strives to ensure industry's voice is heard when public policy is developed.

Northern Alberta Development Council (NADC)

The Northern Alberta Development Council is a regional development council made up of a 10 member-council chaired by a Member of the Legislative Assembly of Alberta. The mission of NADC is to identify and implement measures that will advance northern development, as well as advise government on opportunities and issues. NADC, in partnership with northern stakeholders, is involved with projects and initiatives in transportation, northern housing, value-maximization of agriculture, tourism, inter-jurisdictional projects and educational initiatives, including bursaries to assist post-secondary students.

Economic Development Policy and Analysis (EDPA)

Economic Development Policy and Analysis branch contributes to the interface between the ministry and other departments by identifying major economic development drivers, industry sector and regional trends impacting Alberta's economic performance and prosperity. The EDPA branch reviews economic development policy implications and raises awareness among staff, other departments and client groups. EDPA is a contributor to coordinated cross-ministry economic policy research and analysis, economic scanning, and strategy implementation.

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, 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 (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 coordinating the ministry's 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 the 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 2009: Building On Our Strength, which responds to the current economic and fiscal challenges facing Alberta and the rest of the world. This budget balances the needs of Albertans with the long-term goal of building on Alberta's existing fiscal strength. This good news budget enables government to meet Albertans' priorities without major tax increases or drastic cuts to programs.
- Maintained a strong position for recovery with nearly $17 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.
- Developed a new, more flexible fiscal framework to respond to the current economic and fiscal volatility. The new framework permits deficits only if offset by transfers from the Sustainability Fund. The framework permits borrowing for capital spending but prohibits borrowing for operating expenses. It also restricts in-year increases in operating expenses to one per cent of total ministry operating expenses.
- Drafted several pieces of legislation, such as the *Alberta Corporate Tax Amendment Act* and the *Alberta Personal Tax Amendment Act*, which ensure Alberta maintains a fair, equitable, and competitive tax regime. Other legislation drafted includes the *Tobacco Tax Amendment Act*, which strengthens the tobacco tax framework and supports the Province's Safe Communities Initiative by clarifying definitions, tightening rules, and providing more serious penalties for those breaching the Act.
- Continued improvements to the province's pension system through work with the Government of British Columbia to publish the Joint Expert Panel on Pension Standards Report. The project will harmonize pension standards regulations in Alberta and BC. There is ongoing work to establish a supplementary pension plan for Albertans and amendments to the Employment Pension Plans Regulation will provide necessary funding relief for sponsors of defined benefit pensions plans.
- Launched Alberta's Public Registry for Regulations, an online tool to provide the public with advance notification of government regulatory proposals relevant to business. The registry facilitates the exchange of information, supports dialogue with stakeholders, and enhances government transparency.
- Established a regulatory unit for financial institutions to regulate and supervise the financial institutions that government is responsible for providing regulatory oversight.
- Drafted amendments to the *Securities Act* to further harmonize and streamline securities law requirements across Canada, assisting in the implementation of the passport system, which will provide market participants with a single window of access to Canadian capital markets effective September 1, 2009.
- Supported the Construction Owners Association of Alberta in a benchmarking study that assessed Alberta construction productivity versus that of our competitors in the Gulf Coast. Companies can now look at specific areas of their projects that this study highlighted to make improvements to their practices, ultimately saving time and money, and increasing productivity.
- Collected a total of $5.8 billion in taxes. More than a quarter of a million claims and returns were processed, including 263,938 corporate and commodity tax returns and 23,505 benefit claims. This is a 7 per cent increase over the last three years.
- Expanded access to e-commerce for more revenue programs. Access to returns and renewal of registrations was made available online for the International Fuel Tax program and additional reporting was provided for the Tax Exempt Fuel Sales program via TRACS (Tax and Revenue Administration Client Self-service).

Results Analysis

- Review Engagement Report
- Ministry Financial Highlights
- Performance Measures, Targets and Results

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 2008-09 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 2008. 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 me 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 2008-09 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**

Fred J. Dunn
FCA
Auditor General

Edmonton, Alberta
September 4, 2009

Ministry Financial Highlights

Revenue (thousands of dollars)	2008-09		2007-08
	Budget	Actual	Actual
	16,705,635	13,183,577	17,721,971

Revenue for the Ministry was $4,538 million, or 26 per cent, lower than last year.
(Actual – Actual)

- Continued strong personal income growth for Albertans resulted in personal income tax revenue being $437 million higher than in 2007-08.
- Corporate income taxes were lower than last year by $443 million due to increases in corporate tax refunds.
- Other taxes were lower by $20 million in 2008-09. Tobacco tax decreased by $17 million due to lower sales and fuel tax decreased by $33 million due to lower consumption. These decreases were partially offset by insurance taxes which were $27 million higher as a result of higher premiums written.
- Transfers from the Government of Canada increased by $16 million as a result of the funding received from the Federal Community Development Trust.
- Lower realized capital gains associated with the overall decline in U.S. and non-North American equity markets and write downs of investments in the endowment funds resulted in a decrease of $4,317 million in investment income.
- Net income from commercial operations was $22 million lower mainly attributed to a $24 million decrease of ATB Financial net income. The decrease in net income of ATB Financial was due to a decrease of $12 million in net interest income, an $84 million increase in operating expenses, a $30 million increase in the provision for credit losses, offset partially by an increase of $74 million in other income. The provision for asset-back commercial paper was $28 million less than the provision required in the prior year.
- For premiums, fees and licenses, there was an $18 million increase due to a $10 million increase in investment manager fee revenue and an $8 million increase in deposit guarantee fee revenue over the prior year.
- Lower Lottery Fund revenue allocation resulted in a decrease of $221 million as compared to the previous year.

Revenue for the Ministry was $3,522 million, or 21 per cent, under budget.
(Budget – Actual)

- Personal income tax revenue was $94 million higher than budgeted due to stronger-than-expected growth in personal income.
- Corporate income tax revenue was $478 million higher than budgeted as 2008-09 was a better year for the corporate sector than initially expected, and in particular for the oil and gas and construction industries.
- Other taxes were $89 million lower than budget as tobacco sales were less than anticipated, and a decrease in fuel consumption was realized with a weakening economy.
- Investment returns were $3,924 million lower than budgeted. The sharp decline in world equity markets caused by the world credit crisis and ensuing global recession was the primary reason for the lower investment returns.

- Net income from commercial operations was $255 million under budget as ATB Financial recorded an additional $225 million provision for asset backed commercial paper in the year.
- Premiums, fees and licenses were $110 million over budget. Of this, $101 million is related to the external manager fee revenue. The reporting of revenue and expenses for external manager fees changed, subsequent to the budget, from reporting on a net basis to a gross basis. The corresponding budget of $100 million for external manager fee revenue is reported in net investment income.
- Lower than expected Lottery Fund revenue resulted in transfers $10 million less than budget.

	2008-09		2007-08
Expenses	Budget	Actual	Actual
(thousands of dollars)	**1,495,425**	**3,170,163**	**3,667,194**

Ministry expenses were $497 million, or 14 per cent, lower than in 2007-08.
(Actual – Actual)

- Investment, treasury and risk management expenses were $38 million higher than prior year. Of this $17 million was due to an increase in external investment manager fee expenses.
- Financial Sector and Pensions expenses were $59 million lower than last year caused by a decrease in Alberta Capital Finance Authority borrowing costs of $70 million over the prior year, partially offset by a $9 million increase in pension administration costs and a $2 million increase in pension liability funding.
- The Teachers' Pension liability funding was $45 million higher than the prior year due to the funding of a full year of contributions in 2008-09.
- Valuation adjustments are $515 million lower as the extent of pension obligation adjustments were lower than the prior year.
- Debt servicing costs were $17 million lower than the prior year due to lower interest rates.

Expenses for the Ministry were $1,674 million, or 112 per cent, over budget.
(Budget – Actual)

- Investment, treasury and risk management expenses were $142 million higher than budget. The main cause of this is related to external manager fee expenses of $173 million. The reporting of revenue and expenses for external manager fees changed, from a net basis to a gross basis subsequent to the budget. The corresponding budget of $172 million has been budgeted in net investment income.
- Financial Sector and Pensions expenses were $89 million lower due to decreased borrowing costs of Alberta Capital Finance Authority and lower expenses by Alberta Securities Commission.
- Valuation adjustments are $1,645 million over budget as the Teachers' Pre-92 Pension Plans required a valuation adjustment of $1,702 due to a change in the discount rate from 7.25 per cent to 5.0 per cent. There was $123 million in further adjustments due to increased deficiencies in the pension plans due to investment losses. The losses are being amortized over the Expected Average Remaining Service Life of the employee group of each pension plan.
- Debt servicing costs were $12 million less than budget due to lower than expected interest rates.

Expense by Core Business

MINISTRY EXPENSE BY 2008-09 CORE BUSINESS (thousands of dollars)	2008-09 Budget	2008-09 Actual	2008-09 Actual
Fiscal Planning and Economic Analysis	5,297	3,882	4,394
Tax and Revenue Management	56,865	55,049	46,624
Investment, Treasury and Risk Management *	488,398	622,245	597,177
Financial Sector and Pensions **	906,705	2,465,710	2,997,088
Enterprise	38,160	23,277	21,911
	1,495,425	**3,170,163**	**3,667,194**

***Note: The core business of Investment, Treasury and Risk Management includes debit servicing and a portion of ministry support services.**

****Note: The core business of Financial Sector and Pensions includes the Teachers' pre-1992 pensions liability funding, valuation adjustments and a portion of ministry support services.**

Expense by Function

MINISTRY EXPENSE BY FUNCTION (thousands of dollars)	2008-09 Budget	2008-09 Actual	2008-09 Actual
Health	102,679	96,613	91,297
Education	85,665	81,931	71,857
Agriculture, Resource Management and Economic Development	68,054	47,852	33,530
Regional Planning and Development	335,589	256,006	320,244
Protection of Persons and Property	38,717	30,703	29,093
General Government	494,537	653,627	406,402
Debt Servicing	194,184	182,539	199,107
Pension Provisions	176,000	1,820,892	2,515,664
	1,495,425	**3,170,163**	**3,667,194**

Performance Measures, Targets and Results

In prior years, the Auditor General applied specified auditing procedures to all ministry performance measures included in the annual repot. In the current year the Auditor General conducted a limited assurance review of selected performance measures that are identified in the annual reports as “Reviewed by the Auditor General” by shading the audited measures. The measures were selected for review by ministry management based on the following criteria established by government:

- measures that best represent the goal and mandated initiatives;
- measures have well established methodology and reporting of data;
- measures have outcomes over which the government has a greater degree of influence.

Core Business: Fiscal Planning and Economic Analysis

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.

In 2008/09, Alberta Finance and Enterprise undertook a comprehensive review of the fiscal framework to ensure that it was reflective of changing economic and fiscal circumstances. The current fiscal framework was mainly intended to provide limitations during times of revenue growth. However, the framework had not been adequately tested during periods of major revenue downturn and fiscal stress as occurred in 2008/09. The framework had also become extremely complex and less transparent over the years. The results of the review of the fiscal framework are reflected in the 2009 budget and are designed to improve flexibility and increase transparency.

In 2008/09, Alberta Finance and Enterprise also continued to examine refinements to its saving strategy in conjunction with the report of the Financial Investment and Planning Advisory Commission (FIPAC). Since 2003, Alberta has saved over $16 billion in its Sustainability Fund and Capital Accounts, and deposited over $4 billion in the Alberta Heritage Savings Trust Fund. The decision at fiscal year-end to restructure the Sustainability Fund, and save cash available from future surpluses in the Fund, represents the first corner stone in Alberta’s new savings strategy.

Alberta Finance and Enterprise continued to work with Treasury Board 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 also articulated on various accounting changes being proposed to public sector accounting standards. For the fourth year, the Government of Alberta Annual Report (including the audited financial statements) used a broader scope of reporting, adding the increase in the net equity of Crown-controlled organizations in the SUCH sector (schools, universities, colleges and health authorities) to revenue.

Financial Information (thousands of dollars)	Budget	Actual	Variance
Expenses for Core Business: Fiscal Planning and Economic Analysis	5,297	3,882	1,415

The Fiscal Planning and Economic Analysis core business was $1.4 million under budget mainly due to staff vacancies and time delays in filling positions.

Goal 1 Strong and Sustainable Government Finances

Sound fiscal planning and prudent economic and revenue forecasting are required to meet today's priorities and sustain essential programs and services over the longer term. The legislated fiscal framework supports sound fiscal planning to help deal with revenue volatility and to maintain balanced budgets.

The ministry provides economic and fiscal forecasts, develops fiscal policy options and coordinates and prepares the annual budget and quarterly budget updates to Albertans on the Government of Alberta's financial position.

The volatility of Alberta's revenue base presents a unique challenge in maintaining the sustainability and stability of government finances. This was the case in 2008/09 when the impact of the global economic downturn resulted in a significant decline in Alberta's actual non-energy revenues from the budget estimate.

Alberta's legislated fiscal framework, the *Fiscal Responsibility Act* (FRA), was able to accommodate the decline in Alberta's actual non-energy revenues through a withdrawal from the Sustainability Fund, ensuring that core programs in health care, education and infrastructure were protected.

Reviewed by Auditor General **Performance Measure**	**2008-09 Target**	**Current Results**	**Previous Year's Result(s)**		
Alberta's credit rating *(blended credit rating domestic debt)*	AAA	AAA **(2008-09)**	AAA **(2007-08)**	AAA **(2006-07)**	AAA **(2005-06)**

Source: Three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's Rating Services

Note: The rating agencies meet with the province during the summer months and release their rating reports in the fall of each year. They continue to monitor the province throughout the year and if a material event occurs subsequent to the release of their report they would issue another report based on the impact of the subsequent event.

In the 2008-09 fiscal year, Alberta once again maintained its Triple A rating, the highest possible rating from all three major credit rating agencies. This means Alberta achieved its target for this measure and makes Alberta the most highly rated province in Canada. Alberta's credit rating is a broad measure of the province's financial stability and reflects the rating agencies positive assessment of the province's fiscal, economic, and political environment. The three major credit rating agencies are Standard and Poor's Rating Services, Moody's Investor Services and Dominion Bond Rating Service.

Goal 2 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 low overall tax rates promotes strong economic growth. Alberta has the lowest personal and corporate taxes of all provinces with a low single-rate personal income tax, low corporate tax rates and the lowest tax on gasoline. Alberta is the only province without a capital tax, general payroll, or retail sales tax.

Alberta has an export-oriented economy that is affected by the vagaries of global markets (commodities and financial) and global trends. Finance and Enterprise provides the government's macro economic forecast and works with other ministries to ensure that the government's economic policy framework supports sustainable long-run growth that enhances the well-being of Albertans. The ministry analyzes the implications of various developments on Alberta's economic performance and helps other ministries to assess the economic and fiscal implications of alternative policy options.

Alberta's low tax regime leaves more money in the hands of Albertans and Alberta businesses to spend and invest. The province's tax advantage was improved significantly, as the health care insurance premium was eliminated entirely on January 1, 2009. The elimination of the premium will save Albertans and Alberta businesses about $1 billion annually. Families will benefit by up to $1,056 each year, and single Albertans will benefit by as much as $528.

The province continued to phase in the changes to the dividend tax system and the increases to the small business threshold that were announced in September 2006. The small business threshold increased to $460,000 on April 1, 2008. As of January 1, 2009, the dividend tax credit for dividends paid out of income that was taxed at the general corporate income tax rate rose to 10 per cent while the dividend tax credit on dividends paid out of income taxed at the small business rate was lowered to 3.5 per cent. These changes will result in similar tax treatment between dividends received from small businesses and large corporations, and from wages and salaries.

Reviewed by Auditor General **Performance Measure**	**2008-09 Target**	**Current Results**	**Previous Year's Result(s)**		
Provincial tax load for a family of four	Lowest in Canada	Lowest in Canada **(2008-09)**	Lowest in Canada **(2007-08)**	Lowest in Canada **(2006-07)**	Lowest in Canada **(2005-06)**

Source: Alberta Finance and Enterprise, Interprovincial Tax and Health Care Insurance Premium Comparison, 2008, p. 160 of Budget 2008

In 2009, Alberta had the lowest provincial tax load for the $75,000 and the $125,000 income families, and the third-lowest provincial tax load for the $30,000 income families. Alberta's high basic personal and spousal amounts, which are the most generous among provinces, and low 10 per cent single tax rate, continue to provide tax advantages for Albertans. The advantage is further enhanced by the Alberta Family Employment Tax Credit program, the lack of a provincial sales tax, low taxes on fuel and the elimination of health care premiums.

Alberta continued to index its personal income tax system to inflation. In 2009, credit amounts were increased by 3.8 per cent, saving Alberta taxpayers $115 million. Alberta has indexed its personal income tax system since 2001.

The Alberta Family Employment Tax Credit (AFETC) provides benefits to working families and also assists families in moving off income support programs. Beginning July 2008, the government enhanced the maximum credit by 10 per cent in addition to the annual inflation adjustment. The credit was increased to $669 for one child, $1,277 for two children, $1,642 for three children and $1,764 for four or more children. In addition, the point at which the credit starts to phase out increased by $5,000 to $32,633.

Interprovincial Tax and Health Care Insurance Premium Comparison - 2009			
Province	**One-income family with two children, earning $30,000 ($)**	**Two-income family with two children, earning $75,000 ($)**	**Two-income family with two children, earning $125,000 ($)**
AB	-1,031	3,084	7,300
BC	1,412	5,021	8,814
SK	-2,014	4,263	9,873
MB	1,718	7,038	13,644
ON	1,393	6,046	11,307
QC	-2,204	7,071	17,128
NB	1,973	6,817	13,455
NS	2,450	7,089	14,211
PE	2,788	7,523	14,214
NL	2,874	7,097	13,641

Calculations are based on the following assumptions:

- Business is assumed to bear between 25 per cent and 60 per cent of the provincial sales tax, depending upon the provincial tax regime;
- Health care insurance premiums are net of premium subsidies;
- In provinces that impose payroll taxes, 75 per cent is assumed to be borne by employees and 25 per cent by employers. The same 75/25 split is assumed for the net health care insurance premiums;
- Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 litres for two-income families;
- Registered Retirement Savings Plan/Registered Pension Plan (RRSP/RPP) contributions of $1,000, $9,700 and $16,800 are included in the calculation of personal income tax for the $30,000, $75,000 and $125,000 families, respectively;
- For two-income families, income and RRSP/RPP contributions are split 60/40 between the two spouses; and
- The children in each family are assumed to be 6 and 12 years old.

Reviewed by Auditor General **Performance Measure**	**2008-09 Target**	**Current Results***	**Previous Years' Result(s)****		
Provincial tax load on businesses	Lowest in Canada	Second Lowest in Canada **(2008-09)**	Lowest in Canada **(2007-08)**	Lowest in Canada **(2006-07)**	Second-lowest in Canada **(2005-06)**
					Second-lowest in Canada *(historical data was revised by the Federal Department of Finance resulting in Alberta being the second lowest, after New Brunswick)*

Source: Federal Department of Finance
Note: *Data is preliminary.

Note: **Data for this measure has been revised by the Federal Department of Finance since these results were originally published. As a result of the revisions, Alberta had the second lowest business tax load in Canada for 2005-06.

Based on preliminary data, Alberta's tax load on business was the second lowest among provinces in 2008-09. Manitoba ranked ahead of Alberta by 0.5 percentage points, while British Columbia ranked next behind Alberta by 3.9 percentage points. Although this measure does a reasonable job of showing the relative tax loads across provinces, it may not present a complete picture. For example, results can be skewed in provinces that have a greater proportion of small versus large businesses because the small business rates are generally significantly lower than the general corporate rate.

Alberta continues to provide a competitive tax environment to support the growth and success of Alberta's businesses. Alberta has the lowest general corporate income tax rate and fourth lowest small business income tax rate among provinces, and has no capital taxes, payroll taxes, or retail sales taxes on business purchases. Further, Alberta businesses that paid the health care insurance premium as a benefit for employees would have seen an immediate savings upon the January 1, 2009 elimination of the premium.

To encourage Alberta companies to do more research and development and to make Alberta a more attractive location for knowledge intensive companies, Alberta introduced a refundable tax credit for expenditures on research and development. The credit is worth 10 per cent, with a maximum credit of $400,000, for all expenditures incurred after December 31, 2008 that are also eligible for the federal Scientific Research and Experimental Development Credit.

Tax Load On Business		
	2008-09	**2007-08**
Manitoba	76.6	83.4
Alberta	**77.1**	**73.9**
British Columbia	81.0	88.1
Newfoundland and Labrador	102.4	111.0
Ontario	105.1	105.1
New Brunswick	107.1	109.0
Nova Scotia	109.1	105.5
Prince Edward Island	111.1	108.1
Quebec	115.3	115.1
Saskatchewan	181.6	167.5

Source: Federal Department of Finance

Provincial tax load, or tax effort, compares actual tax revenues generated within a province to the revenue the province would generate if it taxed at national-average tax rates. Therefore, because this is a relative measure, individual provincial tax load figures can change both because of changes made within the specific province or because of changes made in other provinces. Business taxes examined include business income taxes, capital taxes and insurance corporation taxes.

Each year, the provinces report their tax revenues by these categories to the federal government as part of the reporting requirements for the Equalization Program. The steps to calculate provincial tax loads are:

1. National-average tax rates are calculated by dividing total national tax revenues by the national tax base. The tax base for corporate income taxes, for example, is corporate profits.
2. The revenue the province would generate if it taxed at national rates is equal to the national average tax rate multiplied by the provincial tax base for each of the tax categories.
3. The provincial tax load is equal to the ratio of actual provincial revenues divided by the results of the previous calculation multiplied by 100.

Core Business: Tax and Revenue Management

Financial Information (thousands of dollars)	2008-09 Budget	2008-09 Actual	Variance
Expenses for Core Business: Tax and Revenue Management*	56,865	55,049	1,816

***Note: Including statutory interest expense**

Goal 3 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 design and administration of Alberta tax and revenue programs contribute to a fair and competitive tax environment in Alberta and in Canada. Collecting revenue fairly means that all taxpayers and claimants are treated equally under the law and with respect; efficiently means obtaining measurable value for money spent; and effectiveness means to increase revenues by improving self-compliance.

Reviewed by Auditor General Performance Measure	2008-09 Target	Current Results*	Previous Years' Result(s)		
Ratio of amounts added to net revenue to costs of administration	12:1	25:1	13:1 (2007-08)	15:1 (2006-07)	12:1 (2005-06)

Source: Alberta Finance and Enterprise Tax and Revenue Administration

***Note: The ratio for the 2008-09 year was significantly higher than the previous year's results and the current target as a result of significant recoveries made by applying reassessments made by Canada Revenue Agency (CRA) in a similar fashion in Alberta and by TRA's audit actions on corporate tax avoidance schemes. For example, applying three very large reassessments made by CRA in the year to Alberta's tax returns led to incremental Alberta reassessments of over $191 million. These reassessments are currently under objection. Removing the impact of these three reassessments result in a revised ratio of 18:1 for 2008-09.**

Through the revisions of returns and claims, the collection of overdue accounts, and audit activities, the Tax and Revenue Administration (TRA) division of Finance and Enterprise recovers tax revenues that otherwise may be lost. This measure is calculated by dividing the additional revenue obtained through administration actions, by TRA's operating budget.

The amount added to net revenue for 2008-09 was $742.0 million and the associated TRA operating costs were $30.2 million, resulting in a value added ratio of 24.6 to 1, recoveries of almost $25 for every $1 spent.

Performance Measure	2008-09 Target *	Current Results	2007-08 Previous Results
Percentage of revenue obtained through self-compliance	92%	88.1%	94.2%

Source: TRA Monthly Status Report (IMAGIS)

***Note: The ratio for the 2008-09 year was significantly lower than the previous year's results and the target as a result of significant recoveries made by applying reassessments made by Canada Revenue Agency (CRA) in a similar fashion in Alberta and by TRA's audit actions on corporate tax avoidance schemes. For example, applying three very large reassessments made by CRA in the year to Alberta's tax returns led to incremental Alberta reassessments of over $191 million. These reassessments are currently under objection. Removing the impact of these three reassessments results in a revised ratio of 92 per cent for 2008-09.**

Voluntary compliance calculates whether the taxpaying public is complying with tax legislation. This measure 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.

Core Business: Investment, Treasury and Risk Management

The Minister of Finance and Enterprise sets the long term asset allocation policies and guidelines for the funds under her administration, based on advice from the Treasury 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.

Financial Information (thousands of dollars)	2008-09 Budget	2008-09 Actual	Variance
Expenses for Core Business: Investment, Treasury and Risk Management	488,398	622,245	(133,847)

As the government's outstanding debt balances continue to decline, the cost of servicing the debt decreases. In 2008-09 the government also saw lower than anticipated interest rates which resulted in lower borrowing costs. General government debt servicing costs were $12 million lower than budgeted and $11 million lower than last year.

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

- Transfers of $47 million to Advanced Education for the Access to the Future Fund;
- A $19 million transfer from the Alberta Cancer Legacy Prevention Fund to Health; and
- A $15 million interest bearing loan advance to AIMCo.

Goal 4 Sound Financial Management and Investment Policy

Under the *Financial Administration Act* the Ministry of Finance and Enterprise provides leadership to other ministries with respect to sound financial management and decision making.

The ministry is responsible for the investment of the Alberta Heritage Savings Trust Fund (AHSTF), endowment funds and other government funds. The Minister establishes investment policies for these funds with advice and recommendations provided by the department. The Minister provides oversight of the Alberta Investment Management Corporation (AIMCo), established to implement the investment policies of the AHSTF, other government endowment and investment funds and public sector pension plans.

AIMCo is the fifth largest public sector investment manager in the country and the largest in Alberta. The investment operation provides investment products and advice for government endowments, public sector pension plan boards and various other clients. The ministry is also responsible for the province's cash management, including short-term borrowing and investing, management of banking arrangements, and short and long-term financing for the government and provincial corporations.

The AHSTF was created in 1976 to save a portion of non-renewable resource revenue. The mission of this fund is 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. The investment strategy for the fund focuses on earning the greatest long-term returns for Albertans, within an acceptable level of risk.

During the fiscal year 2008-09, the market value of the Heritage Fund decreased by $3 billion from $17 billion to $14 billion. The decrease can be attributed to a sharp decline in world equity markets and the global credit crisis.

Reviewed by Auditor General **Performance Measure**	**2008-09 Target**	**Current Results***	**Previous Years' Result(s)**
Five-year market value rate of return of the selected asset mix *(policy benchmark)* of the Alberta Heritage Savings Trust Fund will be compared against the Consumer Price Index (CPI) plus 4.5 per cent to determine whether the long-term investment policy is achieving the returns expected based on long-term capital market assumptions	6.4% (CPI + 4.5%)	2.9% (3.5% below target) **(2008-09)**	7.6% (1.1% above target) **(2007-08)**

Source: Alberta Investment Management Corporation

***Note: This measure is used to determine whether the long-term investment policy is achieving the returns expected based on long-term capital market assumptions**

Performance Measure	**2008-09 Target ***	**Current Results**	**2007-08 Previous Results**
Five-year annualized weighted average market value rate of return for endowment funds compared against the weighted average policy asset mix rate of return *(benchmark)* for those funds to determine the impact of active fund management on performance	Policy Benchmark plus 0.75%	All funds underperformed target benchmarks **(2008-09)**	All funds exceeded target benchmarks **(2007-08)**

***Note: Each year since this measure's inception, the performance measure and target were changed based on how many years the new measure was in use until it built up to five years in 2008-09. For 2009-10, the premium is increasing to 1.00 per cent. Therefore the performance measure will be calculated as an annualized five-year weighted average market value rate of return of each endowment fund compared against the annualized five-year weighted average policy asset mix rate of return plus the applicable premium as approved by the Ministry's business plan.**

Five-year market value rate of return of the endowment funds and their policy benchmark plus 0.75 per cent as of March 31, 2009:

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 0.75 per cent
Alberta Heritage Savings Trust Fund	2.6	3.6
Alberta Heritage Foundation for Medical Research Endowment Fund	1.7	3.0
Alberta Heritage Scholarship Fund	2.2	3.4
Alberta Heritage Science and Engineering Research Endowment Fund	1.4	2.7

Source: Alberta Investment Management Corp.

All of the Endowment funds underperformed their target of adding 75 basis points above the return of the policy benchmarks over the annualized five years ending March 31, 2009. The variances in the performance based on policy benchmarks reflect the diversity of the asset mix structures of all endowment plans. The variance is further impacted by investment manager skill and the situation in the global financial markets.

Performance Measure	2008-09 Target *	Current Results	Last Actual (2006- 07)
Five-year weighted average market value rate of return for the public sector pension funds compared against the weighted average policy asset mix rate of return *(benchmark)* for those funds to determine the impact of active fund management on performance	Policy Benchmark plus 75 basis points*	All funds underperformed target benchmarks (2008-09)	Six of the eight pension funds exceeded the target

***Note: This measure is in effect since fiscal year 2006-07; therefore, only three-year annualized market value rate of return is disclosed.**

Pension Fund	2008-09 Target	2008-09 Actual
Local Authorities	-0.1	-1.8
Management Employees	-1.7	-3.7
Provincial Judges and Masters in Chambers	-0.7	-3.5
Provincial Judges and Masters in Chambers Unregistered	-1.1	-3.8
Public Service	-2.8	-4.9
Supplementary Retirement	-1.2	-4.0
Plan for Public Service Managers (closed)		
Special Forces	-2.3	-4.1
Universities Academic	-3.7	-5.2

All of the pension plans underperformed their policy benchmark plus 75 basis points over the annualized three years ending March 31, 2009. The variances in the performance results reflect the diversity of the asset mix structures of all pension plans. Performance is further impacted by investment manager skill and the situation in the global financial markets.

Goal 5 Effective Leadership in Risk Management

The Ministry serves all government ministries and agencies as well as other bodies identified under the *Financial Administration Act* by providing leadership in identifying, measuring, controlling and financing risk of accidental loss. Risk management strategies provide awareness, improve public safety and reduce costs to government in the long-term.

The Alberta Risk Management Fund operates under the authority of the *Financial Administration Act*. The Fund facilitates the provision of risk management services to ministries by assuming the risk of liability, property and other losses.

Performance Measure	2008-09 Target	Current Results	Previous Years' Result(s)*		
Client satisfaction with the services provided by the Risk Management and Insurance division *(survey issued every two years)*	80% satisfaction	86% satisfaction **(2008-09)**	n/a **(2007-08)**	86% **(2006-07)**	n/a **(2005-06)**

Source: Client satisfaction survey Risk Management & Insurance

***Note: The 2006-07 survey result is unaudited**

Performance Measure	2008-09 Target	Current Results	Previous Years' Result(s)*		
Government of Alberta employee risk awareness *(survey issued every three years)*	Meet or exceed 70%	Survey was not conducted **(2008-09)**	n/a[1] **(2007-08)**	n/a[1] **(2006-07)**	70% **(2005-06)**

Source: Risk Awareness Survey Risk Management & Insurance

***Note: 1 Survey issued every three years.**

The Alberta Risk Management Fund operates under the authority of the *Financial Administration Act*. The fund facilitates the provision of risk management services to participants by assuming general and automobile liability and the risk of property and other losses.

Core Business: Financial Sector and Pensions

Alberta Finance and Enterprise regulates pensions, insurance, financial institutions and capital markets through a legislative and regulatory framework that designates the duty of regulation and oversight to Alberta Finance and Enterprise as well as delegated Crown organizations. By balancing the interests of stakeholders, including plan members, depositors, policyholders, investors and the companies themselves, the department helps to promote an efficient, fair and competitive financial sector in Alberta.

The department regulates the Credit Union Central Alberta Ltd. (CUCA) and provides oversight to the Credit Union Deposit Guarantee Corporation (CUDGC), a Crown agency that regulates credit unions in Alberta. Through CUDGC, the repayment of all deposits held within credit unions is guaranteed and the Government of Alberta ensures CUDGC is able to fulfill its guarantee to credit union depositors.

In order to protect Albertans from a loss as a result of an automobile collision, all Albertans are required to carry a minimum level of automobile insurance. The Alberta government, through the Automobile Insurance Rate Board (AIRB), regulates the insurance premiums insurers charge for compulsory automobile insurance. In addition, all insurance companies are regulated under the *Insurance Act* in terms of their ability to pay claims and fairness of insurance to all Albertans.

Alberta Finance and Enterprise is responsible for administration of the *Employment Pension Plans Act.* The purpose of the Act is to safeguard benefits promised to members of registered pension plans, mainly in the private sector, by setting minimum standards for plan funding, investments, disclosure and qualifications for benefits. In addition, Alberta Finance and Enterprise is responsible for providing policy advice to government for several Alberta public sector pension plans and the Canada Pension Plan. The Alberta Pensions Administration Corporation (APA) provides administrative services for the public sector pension plans.

Financial Information (thousands of dollars)	**2008-09 Budget**	**2008-09 Actual**	**Variance**
Expenses for Core Business: Financial Sector and Pensions	906,705	2,465,710	1,559,005

The main contributing variance is the $1,645 million from valuation adjustments being over budget as the Teachers' Pre-92 Pension Plans required a valuation adjustment of $1,702 million due to a change in the discount rate from 7.25 per cent to 5.0 per cent. There was a $123 million in further adjustments due to increased deficiencies in the pension plans due to investment losses. A slight offset to this was $89 million in expenses less than budget due to lower borrowing costs for Alberta Capital Finance Authority and some lower than planned expenses by Alberta Securities Commission.

Goal 6   Effective Regulation of Private Sector Pension, Insurance, and Financial Products and Services

Albertans need to know the financial services and products they receive are secure. The Ministry of Finance and Enterprise helps to reduce risks relating to these products by regulating private sector pension plans, the insurance industry, credit unions, and loan and trust corporations in Alberta.

The Ministry monitors the financial marketplace and develops rules and regulations that govern credit unions, loan and trust corporations, the insurance industry and pension plans. These rules and regulations facilitate services to deposit holders, policyholders, pension plan members and trust beneficiaries while maintaining a competitive environment in which companies can operate.

Pension plan members need to be assured that their benefits are secure. Alberta Finance and Enterprise assesses private sector pension plan compliance with the standards set out in the Employment Pension Plans Act (EPPA).

Alberta Finance and Enterprise currently monitors 792 private sector pension plans. Of these, 693 are active, nine are in the process of being registered, five are suspended, and 85 are in the process of winding up. These plans have 225,802 active members. Total contributions were approximately $1.8 billion for the year ended March 31, 2009. The market value of total assets and going concern liabilities were $26.2 billion and $21.2 billion respectively, at the same reporting date.

Performance Measure	2008-09 Target	Current Results*	Previous Years' Result(s)		
Percentage of private sector pension plans that meet minimum funding requirements	99%	99%	99% **(2007/2008)**	98% **(2006/2007)**	99% **(2005/2006)**

Source: Alberta Finance and Enterprise, Employment Pensions

***Note: Current service cost and any required deficit payments within timelines set by legislation**

Private sector pension plan sponsors must demonstrate they have adequate funding to pay out all promised benefits by filing annual information returns and audited financial statements, and having triennial actuarial valuations completed for defined benefit plans.

The EPPA requires defined benefit pension plan sponsors to meet minimum funding requirements by making current service contributions, special payments to eliminate any unfunded liabilities over a fifteen-year period, and special payments to eliminate any solvency deficits over a five-year period. Sponsors of defined contribution plans must make contributions in the amounts specified under the terms of the plan, and within legislated time frames. The department's performance benchmark is that at least 99 per cent of pension plans registered in Alberta meet these minimum funding requirements.

This result was achieved as 99 per cent of pension plans registered in Alberta met the minimum funding requirements outlined above. Of those plans not meeting the minimum funding requirements, some are union-sponsored pension plans that were unable to meet the minimum solvency requirements in the past year. Others have come to the attention of the Superintendent of Pensions because the respective employers have not remitted sufficient contributions, or they have not remitted contributions within the prescribed timelines. The Superintendent is actively working with each of the non-compliant plans to ensure they are able to meet the minimum funding requirements.

Goal 7 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.

The mandate for ATB Financial is to provide financial services predominantly to Alberta residents and corporations headquartered in all areas of the province. In doing so, ATB Financial must operate using sound financial institution and business principles with the objective of earning a fair return and in a manner that is operationally independent from government. In addition to the *Alberta Treasury Branches Act* and regulations, ATB Financial must comply with statutory provisions that apply to Alberta crown agents in general, with government policies specified by the Minister, and with management principles adopted by government.

ATB Financial is a full-service financial institution serving over 670,000 Albertans through 164 branches and 133 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.

Strong operating results in 2008-09 enabled ATB Financial (ATB) to record a year-end profit in spite of taking a provision for potential losses on asset-backed commercial paper (ABCP) of $224.8 million. Excluding the ABCP provision, net income would have been $231.2 million; including the ABCP provision, ATB's net income was $6.4 million. This compares with the $283 million earned in the previous year. Total assets were $26.5 billion (up 13.7 per cent from the previous year); total equity remained at over $1.75 billion.

ATB's return on average assets for the year was 0.03 per cent, below the targeted return of 1.14 per cent as a result of the provision for potential losses on ABCP holdings and spread compression resulting from the downward trend of prime and increased competition for deposits. Excluding the ABCP provision the return on average assets would have been 0.93 per cent.

Performance Measure	2008-09 Target	Current Results*	Previous Years' Result(s)		
ATB Financial return on average assets *(before tax)*	1.14% **(2008/2009)**	0.03% **(2008/2009)**	0.14% **(2007/2008)**	1.44% **(2006/2007)**	1.20% **(2005/2006)**

Source: ATB Financial (for further information, refer to ATB Financial Annual Report for year ended March 31, 2009)
***Note: Return on average assets is net income for the year divided by average total assets for the year.**

The Alberta Capital Finance Authority's (ACFA) mission is to provide local authorities within the province with flexible funding for capital projects at the lowest possible cost. ACFA does this by lending funds to local entities at interest rates based on ACFA's cost of borrowing. Since the obligations of ACFA are unconditionally guaranteed by the Province of Alberta, ACFA is able to borrow in the capital markets at interest rates much lower than those available to local authorities acting independently.

Reviewed by Auditor General **Performance Measure**	**2008-09 Target**	**Current Results**	**Previous Years' Result(s)**		
Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/ aggregating agencies for a comparable loan.	Lowest of comparable cases	Met *(in both cases compared)* **(2008-09)**	Met *(in both cases compared)* **(2007-08)**	Met *(in both cases compared)* **(2006-07)**	Met *(in both cases compared)* **(2005-06)**

Source: ACFA Annual Report 2008, OSIFA, ACFA – www.acfa.gov.ab.ca

ACFA aims to offer the lowest borrowing costs to local authorities when compared to similar lenders in Canada. The target was met.

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. ACFA's rates were consistently below OSIFA throughout the year.

Goal 8 An Effective and Efficient Securities Regulatory System

An effective, efficient and streamlined securities regulatory framework is essential for a strong and vibrant economy. It assists in the development of strong national and local capital markets and promotes the interests of both issuers seeking capital and investors providing that capital through their investment dollars.

The Ministry of Finance and Enterprise delivers this through a crown agent, the Alberta Securities Commission (ASC). The ASC is responsible for maintaining the efficiency and integrity of the capital market in Alberta through the administration of the *Securities Act*.

Performance Measure	**2008-09 Target**	**Current Results**	**Previous Years' Result(s)**		
Inter-provincial/territorial securities regulatory system	Phase Two of the Passport System Implemented	Full Implementation of Phase Two of the Passport System deferred to fall **2009**[1]	Phase Two of the Passport System implemented for issuers - **March 17, 2008**	Amendments passed to enable Phase Two of the Passport system **(2006/2007)**	Phase One of the passport system implemented **(2005/2006)**

Source: Alberta Finance and Enterprise, Capital Markets Policy

One of the key objectives of the 2004 Provincial/Territorial Memorandum of Understanding (MOU), signed by all provinces and territories except Ontario, was the establishment of the passport system to provide market participants with a single window of access to Canadian capital markets. In April 2005, Alberta amended the *Securities Act* to facilitate the creation and development of a passport system. Phase One of the passport system was implemented through a rule and related policy changes effective September 19, 2005.

1

Targeted implemented date of new national registration rule deferred to fall 2009 due to second publication for comment of revised draft rule in February 2008.

The MOU contemplates moving to Phase Two, an expanded passport system that builds on and largely replaces the first phase of the passport system - making it simpler, faster and cheaper for a market participant to clear a prospectus, register as a dealer, adviser or representative, or obtain an exemption.

In May 2006, Alberta amended the *Securities Act* to enable implementation of Phase Two of the passport system. In April 2007, Alberta amended the registration provisions of the *Securities Act* to support a new national registration rule. In November 2008, Alberta made further registration-related amendments to the *Securities Act* to support the new national registration rule.

Phase Two of the passport system is being implemented by the regulators in stages, beginning March 17, 2008, for prospectuses, takeover bids, continuous disclosure and exemptive relief applications. Phase Two will be fully implemented by fall 2009 with the implementation of the national registration rule.

Alberta continues to provide a leadership role as Chair of the Taskforce supporting the Council of Ministers of Securities in ensuring that the commitments in the MOU are met in a timely way.

Performance Measure	2008-09 Target	Current Results	Previous Years' Result(s)		
Highly harmonized securities law *(includes highly harmonized rules, regulation and legislation)*	Continuation of development and enactment of highly harmonized securities laws	Continuation of development and enactment of highly harmonized securities laws **(2008/2009)**	Continuation of development and enactment of highly harmonized securities laws **(2007/2008)**	Law passed **(2006/2007)**	Continuation of development and enactment of highly harmonized securities laws **(2005/2006)**

Source: Alberta Finance and Enterprise, Capital Markets Policy

Since 2005, Alberta has amended the *Securities Act* to support highly harmonized national securities law, including Bill 21, passed April 12, 2007, and Bill 38, passed November 3, 2008, amending the Act to harmonize Alberta's securities regulation. These amendments were developed in consultation with other provinces and territories as part of our commitment under the MOU. Some of the amendments remain unproclaimed until related national rules are implemented (e.g. rule dealing with registration requirements) in 2010.

In February 2009 Alberta introduced additional amendments to the *Securities Act* that will, among other things, support the introduction of new simplified Fund Facts disclosure documents for mutual fund investors across Canada.

The Alberta government continues to lead the development of highly harmonized securities legislation. For additional information, visit the website at www.securitiescanada.org.

Goal 9 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. The Ministry is responsible for Alberta's Public Sector Pension Plans including the Local Authorities Pension Plan, the Special Forces Pension Plan, the Public Service Pension Plan and the Management Employees Pension Plan. Pension boards are responsible for setting investment policies for their funds and for monitoring performance within defined objectives and constraints[1].

As part of negotiations during 2007-08, the government and the Alberta Teachers' Association (ATA) agreed that the government would assume all of the pre-1992 pension liability for the Teachers' Pension Plan. Finance and Enterprise will be responsible for managing this liability and will work with Alberta Education to implement the changes.

Alberta Pensions Administration Corporation provides administrative services for public sector pension boards, employers, members and pensioners of seven different pension plans and two retirement plans. Alberta Local Authorities Pension Plan (ALAPP) Corporation provides strategic guidance and support to the Local Authorities Pension Plan Board (LAPP).

The Ministry also provides advice in relation to Alberta's role as one of the joint stewards of the Canada Pension Plan. Alberta takes part in a triennial review of the Canada Pension Plan.

Performance Measure	2008-09 Target	Current Results	Previous Years' Result(s)
Improved pension plan governance	Governance review complete	Phase II of the Governance review is deferred to **(2009/2010)**	Governance review ongoing throughout the year **(2007/2008)**

Source: Alberta Finance and Enterprise, Pension Policy

Public sector pension plans must be sustainable so that they can provide the promised benefits to plan beneficiaries at costs which are affordable.

The governance of the pension plans is currently being reviewed by Alberta Finance and Enterprise in consultation with the pension boards and other stakeholders. Phase I of the governance review focused on clarification of roles and accountabilities of those involved in the administration of the plans. Operating protocols which clarify roles and responsibilities were put in place in 2008/2009. Governance arrangements were reviewed to ensure consistency with the Public Agencies Governance Framework. Phase II of the governance review, which addresses board structure, the stakeholder role in governance, and effective consultation processes with key stakeholders, will continue through 2009-2010.

1 Link to Goal 4, Sound Financial Management and Investment Policy.

Core Business: Enterprise

By strengthening and growing Alberta's businesses, Alberta's industrial sectors and workplaces will contribute to overall prosperity even through difficult economic conditions. Finance and Enterprise, Enterprise division works with industry, economic development organizations, and communities to encourage sustainable economic development and enhance competitiveness, innovation and productivity.

This core business supported the following goals in the Government of Alberta Business Plan:

- **Goal 1** – Alberta will have a prosperous economy
- **Goal 4** – Alberta will have a financially stable, open and accountable government and maintain its strong position nationally and internationally
- **Goal 7** – Alberta will be a safe place to live, work and raise families

In 2008-09, Enterprise division successfully implemented strategies to support Alberta Finance and Enterprise 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 to promote regional and northern economic development opportunities; 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.

Financial Information (thousands of dollars)	2008-09 Budget	2008-09 Actual	Variance
Expenses for Core Business: Enterprise	38,160	23,277	14,883

The Enterprise core business had the budget for the grants to be provided under the Federal Community Development Trust funding, however, the spending authority was transferred to the specific ministries providing the grants.

Goal 10 Alberta has a Competitive and Sustainable Economy

Finance and Enterprise is well-positioned to set the long-term strategic direction for value-added industry and economic development for Alberta. The Ministry works 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 addition, the Ministry produces economic information products to help Alberta companies make sound business decisions based on emerging economic information. Direct support is provided to the Regulatory Review Secretariat, which has been appointed to lead initiatives to improve regulatory quality and reduce the regulatory burden on businesses and citizens by streamlining requirements and eliminating duplication and redundancy.

In 2008, the real gross domestic product (GDP) for manufacturing and business and commercial services was $34.6 billion. The dollar amount did not meet the established target of $35.7 billion as it declined by 0.3 per cent from the 2007 result. The manufacturing sector declined by 2.1 per cent due to the United State's recession (the housing sector was especially hard-hit), and the strong value of the Canadian dollar. GDP for business and commercial services grew by 1.4 per cent in Alberta, as domestic demand growth in Alberta was much weaker in 2008 than in the previous five years (domestic demand increased by 1.4 per cent in 2008 compared with an average annual increase of 7.0 per cent during the previous five years).

For a comparative frame of reference, Alberta's overall GDP declined by 0.2 per cent in 2008.

Performance Measure	2008-09 Target	Current Results*	Previous Years' Result(s)
Real Gross Domestic Product of Manufacturing and Business and commercial services • Billions • Percent change from previous year	$35.7 billion 4.0%	$34.6 billion -0.3%	$34.7 billion 4.0% **(2007-08)**

***Note The targets are based on an annual percent 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. Statistic Canada typically changes the base year for real GDP estimates every five years and this leads to revisions in the real GDP dollar values.**

The value of new capital expenditures on construction and machinery and equipment in manufacturing and service industries continued its upward trend in 2008 to $21.2 billion, exceeding the target of $19.4 billion by 9 per cent. The pipeline and electricity infrastructure industries accounted for the entire increase in the dollar value between 2007 and 2008, as capacity constraints caused very strong investment growth in these two sectors. Another contributor was the continued decline of the United States dollar versus the Canadian dollar, which made machinery and equipment imported from the United States more affordable and encouraged strong investment in Alberta. Rapidly rising Alberta construction costs also contributed to the higher value of this measure, for example non-residential construction costs in Calgary and Edmonton rose 13.2 per cent in 2008.

Reviewed by Auditor General Performance Measure	2008-09 Target	Current Results*	Previous Years' Result(s)
Manufacturing and service industry investment: the value of new capital expenditures on construction and machinery and equipment in Alberta's manufacturing and services industry • Billions • Percent change from previous year	$19.4 billion 7.0%	$21.2 billion 10.1%	19.3 billion 9.2% **(2007-08)**

Source: Statistics Canada, Public and Private Investment, Catalogue #61-205.

Goal 11   Alberta has Strong and Vibrant Regions and Communities

Vibrant and sustainable rural communities with increased economic and social capacity contribute to a prosperous Alberta. Finance and Enterprise collaborates with other Ministries and regions to strengthen regional economic development throughout the province. The Ministry also works to advance northern development and support Regional Economic Development Alliances. The Northern Alberta Development Council focuses attention and awareness on northern Alberta's unique opportunities and challenges. Specifically, the Northern Alberta Development Council initiates, co-ordinates and develops policies and strategies to advance sustainable northern development.

Regional Economic Development Alliances (REDAs) are not-for-profit corporations or societies that encompass a geographical area defined by its members. REDA members are communities and other regional stakeholders that collaborate to achieve economic prosperity based on a shared vision for the region's economic future. REDA membership is self-selecting and voluntary. Working together with community leaders, REDAs aim to grow and develop through regional co-operation and collaboration.

This measure monitors the number of communities participating in REDAs and regional partnerships. The 2008-09 result of 251 indicates a decrease of 10 communities from the previous year. AFE supported the ongoing development and operations of existing REDAs throughout Alberta and provided information and advice to other regional partnerships.

Performance Measure	2008-09 Target	Current Results*	Previous Years' Result(s)
Number of communities participating in Regional Economic Development Alliances and partnerships[1]	265	251[2]	261 **(2007-08)**

Source: Survey conducted by Finance and Enterprise Regional Development Branch

Note:

1 While there are 360 communities in Alberta, not all communities wish to participate in Regional Economic Development

2 The Alberta Capital Region Alliance ceased operations in December 2008, thereby reducing the number of communities participating in REDAs province wide.

Alberta Finance and Enterprise assists the rural REDAs (i.e. excluding Edmonton and Calgary) by providing advisory management services for their development and operations. This measure examines REDA board members' satisfaction with the Ministry's support to ensure continuous improvement in services provided to the alliances.

Reviewed by Auditor General Performance Measure	2008-09 Target	Current Results*	Previous Years' Result(s)
Percentage of Regional Economic Development Alliances board members satisfied with support received to help address regional economic development priorities in Alberta	90%	89%	86% **(2007-08)**

Source: Survey conducted by Finance and Enterprise Regional Development Branch

Note:

1 While there are 360 communities in Alberta, not all communities wish to participate in Regional Economic Development

2 The Alberta Capital Region Alliance ceased operations in December 2008, thereby reducing the number of communities participating in REDAs province wide.

In 2008-09, 89 per cent of REDA board members surveyed were very satisfied or somewhat satisfied with the Ministry's support. This reflects the Ministry's efforts in assisting REDA management boards with business planning, communications, financial advisory services, project management, as well as investment attraction support, administrative services and capacity building. The survey was conducted using two data collection methods: mail surveys and telephone surveys. Survey results are the combined totals of both data collection methods. 106 members participated in the survey out of the 147 board members. The percent satisfied includes those who were very satisfied and somewhat satisfied.

Financial Statements of the Ministry 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, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Finance and Enterprise as at March 31, 2009 and the consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Ministry's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Consolidated Statement of Operations

Year Ended March 31, 2009

	2009 Budget (Schedule 2)	2009 Actual	2008 Actual Restated (Note 13)
	($ millions)		
Revenues (Schedules 1 and 2)			
Income taxes	$ 12,388	$ 12,960	$ 12,966
Other taxes	2,002	1,913	1,933
Transfers from Government of Canada	20	20	4
Net investment (loss) income (Note 11)	1,822	(2,023)	2,294
Net income from commercial operations (Note 11)	270	15	37
Premiums, fees and licences	53	163	145
Internal government transfers	62	56	277
Other	89	79	66
	16,706	13,183	17,722
Expenses (Schedules 2 and 3)			
Fiscal planning and economic analysis	5	4	5
Ministry support services	10	10	10
Enterprise	37	24	21
Tax and revenue management	52	55	46
Investment, treasury and risk management (Note 12)	291	433	395
Financial sector and pensions	487	398	457
Teachers' pre-1992 pensions liability funding	243	242	197
Valuation adjustments (Schedule 4)	177	1,822	2,337
Debt servicing costs			
General government	169	157	168
School boards	25	25	31
	1,496	3,170	3,667
Net operating results	$ 15,210	$ 10,013	$ 14,055

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

Consolidated Statement of Financial Position

As At March 31, 2009

	($ millions) 2009	2008 Restated (Note 13)
Assets		
Cash and temporary investments (Schedule 5)	$ 7,202	$ 5,716
Accrued interest and accounts receivable (Schedule 6)	2,142	1,556
Portfolio investments (Schedule 7)	31,426	35,676
Equity in commercial enterprises (Schedule 8)	1,976	1,883
Loans and advances to government entities (Schedule 9)	1,311	1,218
Other loans and advances (Schedule 10)	6,959	5,876
Tangible capital assets (Schedule 11)	21	17
	$ 51,037	$ 51,942
Liabilities		
Bank overdraft	$ 1,258	$ 2,182
Accrued interest and accounts payable (Schedule 12)	1,630	1,267
Unmatured debt (Schedule 13)	1,990	2,446
Debt of Alberta Capital Finance Authority (Schedule 14)	6,812	5,739
Pension obligations (Schedule 15)	9,781	7,803
Other accrued liabilities (Schedule 16)	212	262
	21,683	19,699
Net Assets		
Net assets at beginning of year	32,243	30,738
Adjustment to opening net assets (Note 13)	(159)	-
Net operating results	10,013	14,055
Net financing provided for general revenues (Note 3 (b))	(12,829)	(12,564)
Change in accumulated unrealized gain (Schedule 8)	86	14
Net assets at end of year	29,354	32,243
	$ 51,037	$ 51,942

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

Consolidated Statement of Cash Flows

Year Ended March 31, 2009

	($ millions)	
	2009	**2008** Restated (Note 13)
Operating activities		
Net operating results	$ 10,013	$ 14,055
Non-cash items included in net operating results	1,974	1,989
	11,987	16,044
Increase in receivables	(463)	(538)
Increase (Decrease) in payables	115	(129)
Other	112	(105)
Cash provided by operating activities	11,751	15,272
Capital activities		
Purchase of tangible capital assets	(10)	(7)
Proceeds from sale of captial assets	-	4
Cash applied to capital activities	(10)	(3)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	18,621	12,747
Portfolio investments purchased	(14,513)	(15,331)
Repayments of loans and advances	2,451	2,576
Loans and advances made	(3,618)	(3,452)
Cash provided by (applied to) investing activities	2,941	(3,460)
Financing activities		
Debt issues	10,700	7,304
Debt retirement	(10,091)	(6,658)
Grants for school construction debenture principal repayment	(52)	(60)
Net financing provided for general revenues	(12,829)	(12,564)
Cash applied to financing activities	(12,272)	(11,978)
Increase (Decrease) in cash	2,410	(169)
Cash and temporary investments, net of bank overdraft, at beginning of year	3,534	3,703
Cash and temporary investments, net of bank overdraft, at end of year	$ 5,944	$ 3,534

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

Notes to the Consolidated Financial Statements

March 31, 2009

(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 Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000
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 Heritage Foundation for Science and Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2000
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 Corporation	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 Administration 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
Alberta Treasury Branches 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 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 Corporation, Alberta Pensions Administration 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 (Alberta Treasury Branches 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, 2009 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 accrued 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 statement 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 outside organizations and individuals at the year end.

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 $100,000 and the threshold for all other capital assets is $5,000.

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 valuation of the alternative investments as well as the accrual of personal and corporate income taxes and provisions for pensions (see Schedule 15). The nature of the uncertainty in these items arises from several factors such as the effect of valuation of alternative investments compared to what is ultimately realized, 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.

Alternative investments of $2,284 million (2008: $3,305 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 $8,708 million (2008: $8,271 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 6.5%.

Corporate income tax revenue, totaling $4,252 million (2008: $4,695 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

Note 3 (continued)

Pension provisions of $1,821 million (2008: $2,338 million) 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, receivables, bank overdraft, payables 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.

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 for fixed income securities is 29%. The policy mix for public equity investment is 49%. The remainder of the portfolio is invested in real estate, private equities and absolute return strategies.

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, natural gas rebates and settlements with First Nations.

NOTE 6 CONTRACTUAL OBLIGATIONS

Obligations to outside organizations in respect of contracts entered into before March 31, 2009 amounted to $344 million (2008: $207 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)
2009-10	$ 77
2010-11	68
2011-12	55
2012-13	37
2013-14	27
Thereafter	80
	$ 344

NOTE 7 CONTINGENT LIABILITIES

($ millions)

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) INDEMNITIES AND GUARANTEES

Indemnities and guarantees at March 31, 2009 amounted to $2 million (2008: $3 million). Payments under guarantees are a statutory charge on the Ministry.

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.

b) CONTINGENT LIABILITIES OF COMMERCIAL ENTERPRISES

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2008, credit unions in Alberta held deposits totaling $15,104 million (2008: $13,337 million).

At March 31, 2009, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $320 million (2008: $270 million).

c) LEGAL ACTIONS

At March 31, 2009 the Ministry was involved in various legal actions through the consolidated entities, the outcomes of which are not determinable. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the Department is jointly or separately named as a defendant in twenty-seven (2008: thirteen) legal claims. Of the twenty-seven claims, twenty-five have specified amounts totaling approximately $127 million (2008: $3,811 million) and two claims have no specified amount. Six (2008: four) claims totaling $1 million (2008: $4 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			2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Contract Notional Amount (a) (c)	Net Fair Value (b) (c)
Equity index swap contracts	90%	4%	6%	$ 4,062	$ 11
Interest rate swap contracts	16%	25%	59%	13,227	(116)
Forward foreign exchange contracts	99%	0%	1%	3,342	(104)
Cross-currency interest rate swaps	36%	36%	28%	1,016	(39)
Credit default swap contracts	3%	56%	41%	6,116	(102)
Bond index swap contracts	100%	-	-	186	1
Equity index futures contracts	80%	0%	20%	2,591	211
				$ 30,540	$ (138)

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 Alberta Treasury Branches with a contract notional amount of $6,283 million and a net fair value of $131 million. The exposure to credit risk on these derivatives of $241 million is reduced by entering into collateral agreements with counter parties of $104 million leaving a residual credit exposure on derivatives of $137 million.

NOTE 9 TRUST FUNDS UNDER ADMINISTRATION

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

Note 9 (continued)

As at March 31, 2009, trust funds under administration were as follows:

	($ millions)	
	2009	**2008**
Local Authorities Pension Plan Fund	$ 13,224	$ 15,321
Public Service Pension Plan Fund	4,578	5,726
The Workers' Compensation Board Accident Fund	1,421	2,648
Universities Academic Pension Plan Fund	1,903	2,419
Management Employees Pension Plan Fund	1,907	2,317
Special Forces Pension Plan Fund	1,145	1,435
Regional Health Authorities and various health institutions construction accounts	1,733	841
Other	170	184
	$ 26,081	$ 30,891

NOTE 10 DEFINED BENEFIT PLANS

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $5 million for the year ended March 31, 2009 (2008: $5 million).

At December 31, 2008, the Management Employees Pension Plan reported a deficiency of $569 million (2008: $84 million) and the Public Service Pension Plan reported a deficiency of $1,188 million (2008: deficiency of $92 million). At December 31, 2008, the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $7 million (2008: a surplus of $2 million).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2009, the Bargaining Unit Plan reported a deficiency of $33 million (2008: $6 million) and the Management, Opted Out and Excluded Plan reported a deficiency of $1 million (2008: surplus of $8 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, 2009, 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 $2 million (2008: $5 million). The value of these assets at March 31, 2009 totaled $59 million at fair value and $63 million at cost (2008: $69 million at fair value and $66 million at cost). These charges are included in net investment income on the Consolidated Statement of Operations.

Note 11 (continued)

Investments held by the Alberta Treasury Branches (ATB) that are consolidated on the modified equity basis also incurred write-downs on ABCP of $225 million (2008: $253 million); 90% of the write downs pertain to ABCP subject to the Accord (2008: 96%). These write-downs are included in net income from commercial operations on the Consolidated Statement of Operations. As at March 31, 2009, the remaining estimated fair value of these investments in ABCP was $702 million (2008: $890 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. The current economic slowdown in North America could have a significant impact on the valuation of the underlying assets, which could ultimately impact the value of the notes currently held.

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) 2009	2008
Incurred by Ministry of Finance and Enterprise	$ 72	$ 65
Incurred by external entities	101	91
	$ 173	$ 156

The Ministry received external investment management fee revenue of $101 (2008: $91) that has been reported on Schedule 1.

NOTE 13 REORGANIZATION

($ millions)

a) LOCAL AUTHORITIES PENSION PLAN

In 2009 the Ministry of Finance and Enterprise accounted for the liability for pension obligation that the Government of Alberta has as an employer for organizations that are controlled by the Province, including government sector entities and Crown-controlled SUCH (schools, universities, colleges and hospitals) sector organizations for former and current employees in the Local Authorities Pension Plan. Prior periods have not been restated. The opening net assets have been decreased by $157 million.

b) GOVERNMENT OF ALBERTA RESTRUCTURING

On March 13, 2008 the Government of Alberta Departments were restructured adding a new division to the Department under the new name of Finance and Enterprise. The 2008 comparatives for Enterprise have been restated as follows: opening net assets increased by $21 and Enterprise expenses increased by $21. In 2009 the opening net assets have decreased by $2.

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2009 presentation.

NOTE 15 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, 2009

(All dollar amounts in millions, unless otherwise stated)

REVENUES

Schedule 1

	($ millions)		
	2009		**2008**
	Budget	**Actual**	**Actual**
Income taxes			
Personal income tax	$ 8,614	$ 8,708	$ 8,271
Corporate income tax	3,774	4,252	4,695
	12,388	12,960	12,966
Other taxes			
Tobacco tax	890	828	845
Fuel tax	775	718	751
Insurance taxes	258	285	258
Alberta tourism levy	74	74	72
Special broker tax	5	8	7
	2,002	1,913	1,933
Transfers from Government of Canada			
Community Development Trust	16	16	-
Unconditional subsidy	4	4	4
	20	20	4
Net investment income			
Investment (loss) income	1,901	(2,023)	2,294
	1,901	(2,023)	2,294
Net income from commercial operations			
Alberta Treasury Branches	262	7	29
Other	8	8	8
	270	15	37
Premiums, fees, and licences			
Alberta Investment Management Corporation	-	101	91
Alberta Securities Commission	25	25	25
Deposit guarantee fee	19	29	21
Alberta Insurance Council	4	5	4
Other	5	3	4
	53	163	145
Internal government transfers			
Lottery Fund	62	56	277
Other			
Pensions administration	36	35	27
Service revenue	40	30	17
Insurance services	12	12	11
Securities settlements	-	1	1
Refunds of expenditure and miscellaneous	1	1	10
	89	79	66
	$ 16,785	$ 13,183	$ 17,722

BUDGET

Schedule 2

($ millions)

	2008-09 Estimates	Adjustments (a)	2008-09 Budget	Authorized Supplementary Estimates (b)	2008-09 Authorized Budget
Revenues					
Income taxes	$ 12,388	$ -	$ 12,388	$ -	$ 12,388
Other taxes	2,002	-	2,002	-	2,002
Transfers from Government of Canada	20	-	20	-	20
Net investment income	1,822	-	1,822	-	1,822
Net income from commercial operations	270	-	270	-	270
Premiums, fees, and licences	53	-	53	-	53
Internal government transfers	62	-	62	-	62
Other	89	-	89	-	89
	16,706	-	16,706	-	16,706
Expenses					
Fiscal planning and financial management	5	-	5	-	5
Investment, treasury and risk management	291	-	291	-	291
Financial sector and pensions	487	-	487	-	487
Tax and revenue management	52	-	52	-	52
Enterprise	37	-	37	(14)	23
Ministry support services	10	-	10	-	10
Teachers' pre-1992 pension liability funding	243	-	243	-	243
Valuation adjustments	1	176	177	-	177
Debt servicing costs					
General government	169	-	169	-	169
School boards	25	-	25	-	25
	1,320	176	1,496	(14)	1,482
Net operating results	$ 15,386	$ (176)	$ 15,210	$ 14	$ 15,224

a) Adjustments consist of a $176 million for pension provisions excluded from the Estimates

b) Estimates were approved on April 22, 2008 and there were no supplementary estimates for the Ministry.

EXPENSES BY OBJECT

Schedule 3

($ millions)

	2009		2008
	Budget	Actual	Actual (Restated Note 13 a)
Salaries, wages and employee benefits	$ 134	$ 120	$ 107
Supplies and services	74	235	218
Grants	271	240	431
Interest and amortization of unrealized exchange gains and losses	493	405	476
Pension liability funding	320	317	73
Interest payments on corporate tax refunds	18	23	17
Valuation adjustments (Schedule 4)	177	1,822	2,337
Amortization of tangible capital assets	8	7	7
Other financial transactions	1	1	1
	$ 1,496	$ 3,170	$ 3,667

VALUATION ADJUSTMENTS

Schedule 4

($ millions)

	2009		2008
	Budget	Actual	Actual
Pension provisions (Schedule 15)	$ 176	$ 1,821	$ 2,338
Provision for employee benefits other than pensions	1	1	(1)
	$ 177	$ 1,822	$ 2,337

CASH AND TEMPORARY INVESTMENTS

Schedule 5

	($ millions) 2009	2008
Fixed-income securities [(a)]		
Corporate	$ 2,579	$ 2,590
Provincial, direct and guaranteed	1,709	722
Alberta guaranteed	115	30
Government of Canada, direct and guaranteed	1,400	910
Municipal	50	18
	5,853	4,270
Deposit in the Consolidated Cash Investment Trust Fund [(b)]	1,116	1,250
Cash in bank and in transit	233	196
	$ 7,202	$ 5,716

a) Fixed-income securities have an average effective yield of 0.61% (2008: 2.07%) per annum. All of the securities have terms to maturity of less than one year (2008: 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, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

Schedule 6

	($ millions) 2009	2008
Personal income tax	$ 620	$ 588
Corporate income tax	690	377
Accrued interest and receivable from sale of investments	342	317
Trade settlement receivable	284	-
Insurance taxes	77	68
Fuel tax	61	66
Lottery Fund	26	96
Contributions receivable from credit union system	11	17
Tobacco tax	9	8
Tourism levy	5	6
Financial institutions capital tax	2	2
Other	16	12
	2,143	1,557
Less allowance for doubtful accounts	1	1
	$ 2,142	$ 1,556

PORTFOLIO INVESTMENTS

Schedule 7

($ millions)

	2009		2008	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Fixed-income securities				
Government of Canada, direct and guaranteed	$ 4,232	$ 4,477	$ 4,477	$ 4,585
Provincial, direct and guaranteed	4,249	4,458	4,156	4,245
Municipal	203	209	213	217
Corporate	6,121	6,083	7,115	7,099
Pooled investment funds	4,941	4,771	6,486	6,445
	19,746	19,998	22,447	22,591
Equities - pooled investment funds				
Canadian	2,699	2,410	3,330	3,281
United States	2,226	2,471	3,020	3,137
Non-North American	2,858	2,459	3,312	3,184
Private real estate	1,613	2,297	262	359
Alternative investments	2,284	2,311	3,305	3,972
	11,680	11,948	13,229	13,933
	$ 31,426	$ 31,946	$ 35,676	$ 36,524

	2009		2008	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Fixed income ownership				
Department [(a)]	$ 14,805	$ 15,227	$ 15,961	$ 16,146
Alberta Heritage Savings Trust Fund [(b)]	4,034	3,870	5,270	5,227
Other entities	907	901	1,216	1,218
	$ 19,746	$ 19,998	$ 22,447	$ 22,591

Average effective market yield	2009	2008
Department	3.0%	3.5%
Alberta Heritage Savings Trust Fund	7.2%	5.2%

a) Of the Department's fixed income securities 23% 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) had the following term maturities based on principal amount:

	2009	2008
	%	
Under 1 year	5	4
1 to 5 years	36	28
6 to 10 years	27	39
11 to 20 years	15	11
Over 20 years	17	18
	100	100

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 8

	($ millions) 2009	2008
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,790	$ 1,738
Total revenue	1,227	1,332
Total expense	1,212	1,294
Net revenue	15	38
Change in accumulated unrealized gains	86	14
Accumulated surpluses at end of year	$ 1,891	$ 1,790
Represented by		
Assets		
Loans	$ 21,606	$ 19,447
Investments	1,339	1,370
Other assets	3,710	2,667
Total assets	26,655	23,484
Liabilities		
Accounts payable	539	446
Deposits	23,881	21,175
Unmatured debt	57	73
Repos	287	-
Total liabilities	24,764	21,694
	$ 1,891	$ 1,790
Accumulated surpluses at end of year		
Alberta Treasury Branches (ATB)	$ 1,759	$ 1,669
Credit Union Deposit Guarantee Corporation	130	119
N.A. Properties (1994) Ltd.	2	2
	1,891	1,790
Subordinated debentures in support of deposit guarantees	85	93
Equity in commercial enterprises at end of year	$ 1,976	$ 1,883

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 9

	($ millions) 2009	2008
Agriculture Financial Services Corporation	$ 1,108	$ 994
Alberta Social Housing Corporation	203	224
	$ 1,311	$ 1,218

OTHER LOANS AND ADVANCES

Schedule 10

	($ millions) 2009	2008
Alberta Capital Finance Authority [(a)]	$ 6,822	$ 5,733
Alberta Heritage Savings Trust Fund Act	180	184
Farm Credit Stability Act	1	2
	7,003	5,919
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	44	43
	$ 6,959	$ 5,876

a) The fair value of the loans as at March 31. 2009 was $7,305 (2008: $6,229). Municipal loans on average yield 5.4% per annum (2008: 5.6%).

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans and related debt (see Schedule 14) made after January 1, 2004.

TANGIBLE CAPITAL ASSETS

Schedule 11

($ millions)

	2009				2008
	Equipment	Computer Hardware and Software	Leaseholds	Total	Total
Estimated useful life	10 years	5 years	10 years		
Historical Cost					
Beginning of year	$ 4	$ 46	$ 4	$ 54	$ 54
Additions	1	8	1	10	7
Disposals - including write-downs	-	-	-	-	(7)
	5	54	5	64	54
Accumulated Amortization					
Beginning of year	3	31	3	37	36
Amortization expense	-	5	1	6	7
Effect of disposals	-	-	-	-	(6)
	3	36	4	43	37
Net book value at March 31, 2009	$ 2	$ 18	$ 1	$ 21	
Net book value at March 31, 2008	$ 1	$ 14	$ 2		$ 17

ACCRUED INTEREST AND ACCOUNTS PAYABLE

Schedule 12

($ millions)

	2009	2008
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	$ 153	$ 160
Corporate income tax receipts in abeyance	532	488
Corporate income tax refunds payable	543	324
Community Development Trust	63	-
Other	339	295
	$ 1,630	$ 1,267

UNMATURED DEBT

Schedule 13

($ millions)

	2009				2008	
	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)	0.38	0.22	$ 40	$ 40	$ 689	$ 695
Fixed rate long-term (d)	6.64	4.00	1,950	2,167	1,757	1,988
	6.52	3.93	$ 1,990	$ 2,207	$ 2,446	$ 2,683

a) Book value represents the amount the Ministry 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 swaps. Effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount. 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 $679 million (2008: $679 million) held by the Canada Pension Plan Investment Fund.

UNMATURED DEBT

Schedule 13 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2009-10, and thereafter, are as follows:

2009-10	$ 112
2010-11	446
2011-12	448
2012-13	269
2013-14	112
Thereafter to 2024	605
	1,992
Unamortized discount	(2)
	$ 1,990

None of the debt has call provisions (2008: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 14

($ millions)

	2009		2008	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Alberta Capital Finance Authority Canadian dollar fixed rate debt [(a)]	$ 6,812	$ 7,174	$ 5,739	$ 5,889
Effective rate per annum		6.8%		5.8%

a) Canadian dollar fixed rate debt includes $1,447 million (2008: $1,706 million) held by the Canada Pension Plan Investment Fund.

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans (see Schedule 10) and related debt made after January 1, 2004.

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2009-10 and thereafter are as follows:

2009-10	$ 2,391
2010-11	150
2011-12	250
2012-13	500
2013-14	328
Thereafter	3,193
	$ 6,812

The Ministry invests in the Consolidated Cash Investment Trust Fund which held $240 million (2008: nil) of Alberta Capital Finance Authority debt on March 31, 2009. The portion held by the Ministry is approximately $38 million (2008: nil).

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 Public Service Pension Plan, Public Service Management (Closed Membership) Pension Plan, Local Authorities Pension Plan, Management Employees Pension Plan, and Provincial Judges and Master in Chambers 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 Plans, 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 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)

	2009 Pension Obligation	2009 Pension Provision	Restatement of opening obligation	2008 Pension Obligation
Obligations to pension plans for Government of Alberta's employer share for former and current employees				
Public Service Management (Closed Membership) Pension Plan [(a)]	$ 650	$ (48)	$ -	$ 698
Local Authorities Pension Plan [(b)]	186	29	157	-
Management Employees Pension Plan [(c)]	35	15	-	20
Provincial Judges and Masters in Chambers Pension Plan [(e)]	4	-	-	4
	875	(4)	157	722
Obligations to pension plans for Government of Alberta's committment towards pre-1992 obligations				
Teachers' Pension Plans [(f)]	8,478	1,702	-	6,776
Universities Academic Pension Plan [(g)]	266	61	-	205
Special Forces Pension Plan [(g)]	112	62	-	50
	8,856	1,825	-	7,031
Obligations to the Members of the Legislative Assembly [(h)]	50	-	-	50
	$ 9,781	$ 1,821	$ 157	$ 7,803

a) 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.

b) 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, regional health authorities, 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 3.43% of pensionable earnings shared equally between employers and employees until December 31, 2020. The pension obligation of $186 million (2008: nil) includes a $157 million restatement made to opening net assets per Note 13 (a) and the 2009 provision of $29 million.

c) 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 7.2% of pensionable earnings shared between employees and employers until December 31, 2018. Current services costs are funded by employers and employees. The government guarantees payment of all benefits arising from service before 1994.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 15 (continued)

d) 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.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2009 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.

f) The Ministry assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plans. The extrapolated value of this obligation at March 31, 2009 is $8,478 million (2008: $6,776 million) due to a change in the discount rate from 7.25% to 5.0%. The obligation of $8,478 million is comprised of a loan payable to Teachers' Pension Plan of $1,078 million and accrued benefit obligation of $7,400 million. The Department currently funds 100% of this obligation.

g) Under the *Public Sector Pension Plans Act*, the Ministry 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 Ministry, 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 Ministry 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.

h) The Ministry 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.

Liabilities for pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services and actuarial extrapolations performed at December 31, 2008 or March 31, 2009 for accounting purposes. The assumptions used in the valuations and 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 inevitably 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.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 15 (continued)

Information about the economic assumptions used in the most recent actuarial extrapolations for accounting purposes is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Public Service Management (Closed Membership) Pension Plan	December 31, 2005	na	2.25	5.00
Local Authorities Pension Plan	December 31, 2007	3.50	2.25	6.30
Public Service Pension Plan	December 31, 2005	3.50	2.25	7.00
Management Employees Pension Plan	December 31, 2006	3.50	2.25	6.75
Provincial Judges and Masters in Chambers Pension Plan	December 31, 2005	3.50	2.25	6.50
Teachers' Pre-92 Pension Plans	August 31, 2008	3.50	2.25	5.00
Universities Academic Pension Plan	December 31, 2006	3.00	2.70	6.70
Special Forces Pension Plan	December 31, 2006	3.50	2.25	6.50
Members of the Legislative Assembly Pension Plan	March 31, 2006	na	2.25	5.00

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-92 Pension Plans and the Members of the Legislative Assembly plan. Each pension plan fund reports annually through financial statements. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

OTHER ACCRUED LIABILITIES

Schedule 16

	($ millions) 2009	2008
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 204	$ 256
Vacation entitlements	8	6
	$ 212	$ 262

RELATED PARTY TRANSACTIONS

Schedule 17

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

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

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

RELATED PARTY TRANSACTIONS

Schedule 17 (continued)

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

	($millions) 2009	2008
Revenues		
Transfers	$ 57	$ 277
Interest from loans and advances to government entities	72	67
Interest from loans and advances to SUCH sector	53	57
Charges for services	11	11
	$ 193	$ 412
Expenses		
Debt servicing costs - school boards debt	$ 25	$ 31
Transfers	101	72
Cost of services	1	3
	$ 127	$ 106
Assets		
Accounts receivable	$ 25	$ 97
Accrued interest receivable from government entities	13	14
Accrued interest receivable from SUCH sector	20	23
Loans and advances to government entities	1,311	1,218
Loans and advances to SUCH sector	932	857
	$ 2,301	$ 2,209
Liabilities		
Other accrued liabilities - future funding of school boards debt	$ 204	$ 256

The SUCH sector includes schools, universities, colleges and hospitals. The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

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 of Finance and Enterprise.

	2009	2008
Expenses - incurred by others		
Accommodation and other costs	$ 5	$ 3
Corporate internal audit services	-	2
Legal Services	2	2
	$ 7	$ 7

DEPARTMENT OF FINANCE AND ENTERPRISE

Financial Statements

Year Ended March 31, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Department of Finance and Enterprise as at March 31, 2009 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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, 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 Fred J. Dunn, FCA]
Auditor General

Edmonton, Alberta
June 4, 2009

Statement of Operations

Year ended March 31, 2009

	2009 Budget (Schedule 3)	2009 Actual	2008 Actual Restated (Note 3 a)
	($ millions)		
Revenues (Schedule 1)			
Internal government transfers	$ 613	$ 56	$ 635
Income taxes	12,388	12,960	12,966
Other taxes	2,002	1,913	1,933
Investment income (Note 6)	583	752	932
Premiums, fees and licences	24	33	24
Transfers from Government of Canada	20	20	4
Other	5	1	24
	15,635	15,735	16,518
Expenses - directly incurred (Note 2 (b) and Schedule 19)			
Voted (Schedules 2 and 4)			
Ministry Support Services	11	11	10
Fiscal Planning and Economic Analysis	5	4	5
Tax and Revenue Management	34	33	30
Investment, Treasury and Risk Management	12	8	26
Financial Sector and Pensions	8	7	8
Enterprise	37	24	21
Payments to the Alberta Heritage Savings Trust Fund	-	-	918
Teachers' pre-1992 pensions liability funding	243	242	197
Debt servicing costs - school construction	25	25	31
	375	354	1,246
Statutory (Schedules 2 and 4)			
Internal Government Transfers to:			
Access to the Future Fund	47	47	46
Alberta Heritage Foundation for Medical Research Endowment Fund	-	-	150
Alberta Heritage Scholarship Fund	-	-	227
Interest payments on corporate tax refunds	18	23	16
Pension liability funding	77	75	73
Debt servicing costs	169	157	168
Valuation adjustments - Schedule 5	177	1,822	2,337
	488	2,124	3,017
	863	2,478	4,263
Net Operating Results	$ 14,772	$ 13,257	$ 12,255

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

Statement of Financial Position

As At March 31, 2009

	($ millions)	
	2009	**2008 Restated (Note 3 a)**
Assets		
Cash and temporary investments (Schedule 7)	$ 6,982	$ 5,389
Accounts and accrued interest receivable (Schedule 8)	2,053	1,499
Portfolio investments (Note 6 and Schedule 9)	14,805	15,961
Loans and advances to government entities (Schedule 10)	1,339	1,231
Other loans, advances and investments (Schedule 11)	7	8
Tangible capital assets (Schedule 12)	7	6
	$ 25,193	$ 24,094
Liabilities		
Bank overdraft	$ 1,258	$ 2,182
Accounts and accrued interest payable (Schedule 13)	1,327	1,045
Unmatured debt (Schedule 14)	1,990	2,446
Pension obligations (Schedule 15)	9,781	7,803
Other accrued liabilities (Schedule 16)	210	260
	14,566	13,736
Net Assets		
Net assets at beginning of year, as restated (Note 3)	10,358	10,668
Adjustment to opening net assets (Note 3 (a) and Note 3 (b))	(159)	-
Net operating results	13,257	12,255
Net financing provided for general revenues (Note 2 (b))	(12,829)	(12,565)
Net assets at end of year	10,627	10,358
	$ 25,193	$ 24,094

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

Statement of Cash Flows

Year ended March 31, 2009

	2009	2008 Restated (Note 3 a)
	($ millions)	
Operating transactions		
Net operating results	$ 13,257	$ 12,255
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	50	(158)
Amortization of tangible capital assets (Schedule 2)	2	3
Valuation adjustments (Schedule 5)	1,822	2,337
	15,131	14,437
Increase in receivables	(553)	(378)
(Decrease) Increase in payables	278	(356)
Cash provided by operating transactions	14,856	13,703
Capital transactions		
Acquisition of tangible capital assets (Schedule 12)	(3)	(3)
Proceeds from disposal of tangible capital assets	-	4
Cash provided by (applied to) capital transactions	(3)	1
Investing transactions		
Disposals of portfolio investments	13,339	10,805
Portfolio investments purchased	(12,233)	(12,015)
Repayments of loans and advances		
Government entities	1,981	2,139
Other	1	3
Loans and advances - Government entities	(2,081)	(2,201)
Cash provided by (applied to) investing transactions	1,007	(1,269)
Financing transactions		
Debt issues	6,901	5,573
Debt retirement	(7,363)	(5,698)
Grants for school construction debenture principal repayment (Schedule 4)	(52)	(60)
Net financing provided for general revenues	(12,829)	(12,565)
Cash applied to financing transactions	(13,343)	(12,750)
Increase (Decrease) in cash	2,517	(315)
Cash and temporary investments, net of bank overdraft, beginning of year	3,207	3,522
Cash and temporary investments, net of bank overdraft, end of year	$ 5,724	$ 3,207

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

Notes to the Financial Statements

March 31, 2009

(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 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 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 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 Administration Corporation,
13. Alberta Local Authorities Pension Plan Corporation,
14. Alberta Investment Management Corporation,
15. Alberta Treasury Branches 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 accrued 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 19.

Note 2 (continued)

Assets

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, 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 $100 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 $8,708 million (2008: $8,271 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 6.5%.

Corporate income tax revenue, totaling $4,252 million (2008: $4,695 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 $1,821 million (2008: $2,338 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 RESTRUCTURING

a) GOVERNMENT OF ALBERTA RESTRUCTURING

On March 13, 2008, the Government of Alberta Departments were restructured adding a new division to the Department under the new name of Finance and Enterprise. The 2008 comparatives for the Department have been restated as follows: opening net assets increased by $21 and expenses increased by $21. The opening net assets of 2009 decreased by $2.

Note 3 (continued)

b) LOCAL AUTHORITIES PENSION PLAN

In 2009, the Department of Finance and Enterprise accounted for the liability for pension obligation that the Government of Alberta has as an employer for organizations that are controlled by the Province, including government sector entities and Crown-controlled SUCH (schools, universities, colleges and hospitals) sector organizations for former and current employees in the Local Authorities Pension Plan. Prior periods have not been restated. The opening net assets for 2009 have been decreased by $157.

c) ALBERTA INVESTMENT MANAGEMENT CORPORATION

On January 1, 2008, the investment operations of the Department of Finance and Enterprise were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance and Enterprise and provides investment services to the Government of Alberta and several public sector pension plans. The revenues and expenses of the investment operations for the first nine months of the 2008 fiscal year are recognized in the 2008 comparatives of the Department's financial statements.

NOTE 4 VALUATIONS OF FINANCIAL ASSETS AND LIABILITIES

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

Because of the short-term nature of these instruments, the fair values of cash and temporary investments, accrued interest, receivables, bank overdraft, payables 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.

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

NOTE 5 RISK MANAGEMENT

a) LIABILITY MANAGEMENT

The objective of the Department's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Department manages 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 6 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, 2009, the Department incurred write-downs of investments related to the Accord totaling $1 million (2008: $5 million). The value of these assets at March 31, 2009 totaled $26 million at fair value and $27 million at cost (2008: $28 million at fair value and $28 million at cost). These charges are included in net investment income on the Statement of Operations.

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. The current economic slowdown in North America could have a significant impact on the valuation of the underlying assets, which could ultimately impact the value of the notes currently held.

NOTE 7 CONTRACTUAL OBLIGATIONS

a) CREDIT UNION ACT

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, through the Department, will ensure that this obligation of the Corporation is carried out. At December 31, 2008 credit unions in Alberta held deposits totaling $15,104 million (2007: $13,337 million).

Substantial assets are available from credit unions to safeguard the Department from risk of loss arising from its potential obligation under the Act.

b) OTHER COMMITMENTS

	($ thousands)	
	2009	**2008**
Service contracts	$ 18,390	$ 16,199
Long-term leases	148	182
	$ 18,538	$ 16,381

Note 7 (continued)

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

	($ thousands)		
	2009		
	Service Contracts	Long-term Leases	Total
2009-10	8,178	80	8,258
2010-11	4,188	55	4,243
2011-12	2,957	13	2,970
2012-13	3,067	-	3,067
2013-14	-	-	-
	$ 18,390	$ 148	$ 18,538

NOTE 8 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) INDEMNITIES AND DEBENTURE, DEPOSIT AND LOAN GUARANTEES

Guaranteed liabilities at March 31, 2009 of government entities amounting to $30,970 million (2008: $27,215 million) are analyzed in Schedule 17. The Department also provides guarantees of other entities amounting to $1 million (2008: $2 million). Schedule 17 is included with the financial statements because payments under debenture and loan guarantees are a statutory charge on the Department.

Payments under the guarantee of Alberta Treasury Branches deposits would also be made by the Department, 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 6.

b) LEGAL ACTIONS

At March 31, 2009, the Department is jointly or separately named as a defendant in twenty-seven (2008 - thirteen) legal claims. Of the twenty-seven claims, twenty-five have specified amounts totaling approximately $127 million (2008: $3,811 million) and two claims have no specified amount. Six (2008: four) claims totaling $1 million (2008: $4 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2009, some taxes assessed were under objection and some were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 9 TRUST FUNDS UNDER ADMINISTRATION

The Department administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province 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 9 (continued)

As at March 31, 2009, trust funds under administration were as follows:

	($ millions) 2009	2008
Local Authorities Pension Plan Fund	$ 13,224	$ 15,321
Public Service Pension Plan Fund	4,578	5,726
The Workers' Compensation Board Accident Fund	1,421	2,648
Universities Academic Pension Plan Fund	1,903	2,419
Management Employees Pension Plan Fund	1,907	2,317
Special Forces Pension Plan Fund	1,145	1,435
Regional Health Authorities and various health institutions construction accounts	1,733	841
Other	170	184
	$ 26,081	$ 30,891

NOTE 10 DEFINED BENEFIT PLANS

The Department sponsors and participates in the multi-employer pension plans; Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense of these plans is equivalent to the annual contributions of $5 million for the year ended March 31, 2009 (2008: $5 million).

At December 31, 2008, the Management Employees Pension Plan reported a deficiency of $569 million (2007: deficiency of $84 million) and the Public Service Pension Plan reported a deficiency of $1,188 million (2007: deficiency of $92 million). At December 31, 2008 the Supplementary Retirement Plan for Public Service Managers had a deficiency of $7 million (2007: surplus of $2 million). The reported deficiency for each plan is based on the difference between the fair value of net assets held in the plan and the liability for accrued benefits.

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2009, the Bargaining Unit Plan reported a deficiency of $33 million (2008: deficiency of $6 million) and the Management, Opted Out and Excluded Plan reported a deficiency of $1 million (2008: surplus of $8 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 11 COMPARATIVE FIGURES

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

NOTE 12 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

	($ millions)		
	2009		**2008**
	Budget	**Actual**	**Actual**
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 490	$ -	$ 358
Transfer from Lottery Fund	62	56	277
Transfer for Alberta Treasury Branches	61	-	-
	613	56	635
Income taxes			
Personal income tax	8,614	8,708	8,271
Corporate income tax	3,774	4,252	4,695
	12,388	12,960	12,966
Other taxes			
Tobacco tax	890	828	845
Fuel tax	775	718	751
Insurance taxes	258	285	258
Alberta tourism levy	74	74	72
Special broker tax	5	8	7
	2,002	1,913	1,933
Transfers from Government of Canada			
Community Development Trust	16	16	-
Unconditional Grant	4	4	4
	20	20	4
Investment income	583	752	932
Premiums, fees and licences	24	33	24
Other			
Various	5	1	24
	$ 15,635	$ 15,735	$ 16,518

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

Schedule 2

	($ millions)		
	2009		2008
	Budget	Actual	Actual Restated (Note 3 a)
Voted			
Salaries, wages and employee benefits	$ 58	$ 54	$ 64
Supplies and services	27	23	25
Grants	45	32	38
Financial transactions and other	-	1	1
Payments to the Alberta Heritage Savings Trust Fund	-	-	918
Pension liability funding	243	242	197
Amortization of tangible capital assets	2	2	3
	$ 375	$ 354	$ 1,246
Statutory			
Internal Government Transfers to:			
Access to the Future Fund	$ 47	$ 47	$ 46
Alberta Heritage Foundation for Medical Research Endowment Fund	-	-	150
Alberta Heritage Scholarship Fund	-	-	227
Interest payments on corporate tax refunds	18	23	16
Pension liability funding	77	75	73
Debt servicing costs	169	157	168
Valuation adjustments (Schedule 5)	177	1,822	2,337
	$ 488	$ 2,124	$ 3,017
	$ 863	$ 2,478	$ 4,263

BUDGET

Schedule 3

	($ millions) 2008-09 Estimates	Adjustments (a)	2008-09 Budget	Authorized Supplementary Estimates (b)	2008-09 Authorized Budget
Revenues					
Internal government transfers	$ 613	$ -	$ 613	$ -	$ 613
Income taxes	12,388	-	12,388	-	12,388
Other taxes	2,002	-	2,002	-	2,002
Transfers from Government of Canada	20	-	20	-	20
Investment income	583	-	583	-	583
Premiums, fees and licences	24	-	24	-	24
Other	5	-	5	-	5
	15,635	-	15,635	-	15,635
Expenses - Directly Incurred					
Voted					
Ministry support services	11	-	11	-	11
Fiscal Planning and Economic Analysis	5	-	5	-	5
Tax and Revenue Management	34	-	34	-	34
Investment, Treasury and Risk Management	12	-	12	-	12
Financial Sector and Pensions	8	-	8	-	8
Enterprise	37	-	37	(14)	23
Teachers' pre-1992 pensions - liability funding	243	-	243	-	243
Debt servicing costs - school construction	25	-	25	-	25
	375	-	375	(14)	361
Statutory					
Internal government transfers					
Access to the Future Fund	47	-	47	-	47
Interest payments on corporate tax refunds	18	-	18	-	18
Pension liability funding	77	-	77	-	77
Debt servicing costs	169	-	169	-	169
Valuation adjustments (Schedule 5)	1	176	177	-	177
	312	176	488	-	488
	687	176	863	(14)	849
Net operating results	$ 14,948	$ (176)	$ 14,772	$ 14	$ 14,786
Equipment/inventory purchases	$ 3	$ -	$ 3	$ -	$ 3

a) Adjustments consist of a $176 million for pension provisions excluded from the Estimates.

b) Estimates were approved on April 22, 2008 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)

	2008-09 Budget	Authorized Supplementary Estimates	2008-09 Authorized Budget	2008-09 Actual Expense (a)	Unexpended (Over Expended)
VOTED EXPENSES					
Ministry Support Services					
Operating Expense					
Minister's Office	$ 550	$ -	$ 550	$ 552	$ (2)
Deputy Minister's Office	746	-	746	879	(133)
Strategic and Business Services	9,000	-	9,000	9,236	(236)
Communications	675	-	675	694	(19)
Cabinet Policy Committee on the Economy	125	-	125	242	(117)
	11,096	-	11,096	11,603	(507)
Equipment/Inventory Purchases	445	-	445	345	100
	11,541	-	11,541	11,948	(407)
Fiscal Planning and Economic Analysis					
Operating Expense					
Budget and Fiscal Planning	4,708	-	4,708	3,882	826
	4,708	-	4,708	3,882	826
Equipment/Inventory Purchases	-	-	-	46	(46)
	4,708	-	4,708	3,928	780
Tax and Revenue Management					
Operating Expense					
Tax and Revenue Administration	34,144	-	34,144	32,505	1,639
	34,144	-	34,144	32,505	1,639
Equipment/Inventory Purchases	2,332	-	2,332	2,042	290
	36,476	-	36,476	34,547	1,929
Investment, Treasury and Risk Management					
Operating Expense					
Treasury Management	10,123	-	10,123	6,530	3,593
Risk Management and Insurance	1,549	-	1,549	1,495	54
	11,672	-	11,672	8,025	3,647
Financial Sector and Pensions					
Operating Expense					
Assistant Deputy Minister's Office	1,526	-	1,526	1,226	300
Regulations of Pensions, Insurance and Financial Institutions	3,091	-	3,091	3,426	(335)
Public Sector Pensions	1,104	-	1,104	920	184
Capital Market Policy	573	-	573	518	55
Automobile Insurance Rate Board	1,326	-	1,326	955	371
	7,620	-	7,620	7,045	575
Equipment/Inventory Purchases	250	-	250	-	250
	7,870	-	7,870	7,045	825

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

Schedule 4 (cont'd)

($ thousands)

	2008-09 Budget	Authorized Supplementary Estimates	2008-09 Authorized Budget	2008-09 Actual Expense (a)	Unexpended (Over Expended)
Enterprise					
Operating Expense					
Regulatory Review Secretariat	467	-	467	525	(58)
Program Development and Support	2,684	-	2,684	2,428	256
Alberta Economic Development Authority	548	-	548	607	(59)
Northern Alberta Development Council	2,489	-	2,489	2,606	(117)
Industry Development	8,152	-	8,152	8,519	(367)
Regional Development	6,487	-	6,487	6,605	(118)
Federal Community Development Trust	15,860	(14,000)	1,860	2,647	(787)
	36,687	(14,000)	22,687	23,937	(1,250)
Teachers' pre-1992 pension liability funding					
Operating Expense	243,000	-	243,000	241,645	1,355
Voted Debt Servicing Costs - Grants for School Construction Debenture Interest					
Operating Expense	25,184	-	25,184	25,167	17
	374,111	(14,000)	360,111	353,809	6,302
Summary					
Program Operating Expense	$ 348,927	$ (14,000)	$ 334,927	$ 328,642	$ 6,285
Equipment/Inventory Purchases	3,027	-	3,027	2,433	594
	$ 351,954	$ (14,000)	$ 337,954	$ 331,075	$ 6,879
STATUTORY EXPENSES					
Internal Government Transfers to:					
Access to the Future Fund	$ 47,080	$ -	$ 47,080	$ 47,126	$ (46)
Farm credit stability program	24	-	24	20	4
Interest payments on corporate tax refunds	18,000	-	18,000	22,602	(4,602)
Pension liability funding	76,700	-	76,700	75,059	1,641
Debt servicing costs	169,000	-	169,000	157,372	11,628
Valuation adjustments (Schedule 5)	177,005	-	177,005	1,821,858	(1,644,853)
	$ 487,809	$ -	$ 487,809	$ 2,124,037	$ (1,636,228)
Voted Non-Budgetary Disbursements					
Grants for school construction debenture principal repayment	$ 52,020	$ -	$ 52,020	$ 51,912	$ 108

a) Includes achievement bonus of $1,937 thousand.

VALUATION ADJUSTMENTS

Schedule 5

	2009 Budget	2009 Actual	2008 Actual
	($ millions)		
Pension provisions (Schedule 15)	$ 176	$ 1,821	$ 2,338
Provision for employee benefits, guarantees and indemnities	1	1	(1)
	$ 177	$ 1,822	$ 2,337

SALARY AND BENEFITS DISCLOSURE

Schedule 6

	2009 Base Salary (1)	2009 Other Cash Benefits (2)	2009 Other Non-Cash Benefits (3)	2009 Total	2008 Total
	($ thousands)				
Senior Officials					
Deputy Minister of Finance and Enterprise(4)	$ 254	$ 43	$ 76	$ 373	$ 343
Executives					
Assistant Deputy Minister - Financial Sector Regulation and Policy	194	28	20	242	244
Assistant Deputy Minister, Treasury and Risk Management	205	32	51	288	264
Assistant Deputy Minister - Tax and Revenue Administration	175	31	43	249	215
Assistant Deputy Minister, Budget and Fiscal Planning (5)	140	23	35	198	215
Assistant Deputy Minister, Strategic & Business Services (5)	174	19	45	238	190
Assistant Deputy Minister, Enterprise (6)	178	28	43	249	243
Director, Human Resources	146	20	36	202	190

(1) Base salary includes regular base pay.

(2) Other cash benefits include bonuses, vacation payouts, and lump sum payments.

(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 2009.

(6) This position was transferred to the Department as of April 1, 2008.

CASH AND TEMPORARY INVESTMENTS

Schedule 7

	($ millions) 2009	2008
Fixed-income securities (a)		
Corporate	$ 2,579	$ 2,590
Provincial, direct and guaranteed	1,709	722
Municipal	50	18
Alberta, guaranteed	115	30
Government of Canada, direct and guaranteed	1,400	910
	5,853	4,270
Deposit in Consolidated Cash Investment Trust Fund (b)	896	928
Cash in bank and in transit	233	191
	$ 6,982	$ 5,389

a) Fixed-income securities have an average effective yield of 0.61% (2008: 2.07%) per annum. All of the securities have terms to maturity of less than one year (2008: less than two years).

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, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

Schedule 8

	($ millions) 2009	2008
Corporate income tax	$ 690	$ 377
Personal income tax	618	588
Trade settlement receivable	284	-
Accrued interest receivable	183	171
Alberta Treaury Branches	85	93
Insurance corporations tax	77	68
Fuel tax	61	65
Lottery Fund	26	96
Contributions receivable from Credit Union Deposit Corporation (a)	11	17
Tobacco tax	9	8
Alberta Tourism Levy	5	6
Other	5	11
	2,054	1,500
Less allowance for doubtful accounts	1	1
	$ 2,053	$ 1,499

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

PORTFOLIO INVESTMENTS

Schedule 9

	($ millions)			
	2009		2008	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities				
Corporate	$ 6,121	$ 6,083	$ 7,115	$ 7,099
Provincial, direct and guaranteed	4,249	4,458	4,156	4,245
Government of Canada, direct and guaranteed	4,232	4,477	4,477	4,585
Municipal	203	209	213	217
	$ 14,805	$ 15,227	$ 15,961	$ 16,146

(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 3.0% (2008: 3.5%) per annum and the following terms to maturity: under one year: 23%; one to five years: 64%; five to ten years: 9%; over ten years: 4%.

(b) The Department's fixed income securities are 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, 2009:

	Maturity			2009		2008	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (1)	Fair Value (2)	Notional Amount	Fair Value
				($ millions)			
Interest rate swap contracts	9%	-	91%	$ 98	$ (1)	$ -	$ -
Forward foreign exchange contracts	100%	-	-	29	(1)	-	-
Cross-currency interest rate swaps	9%	21%	70%	83	(6)	-	-
Credit default swap contracts	2%	57%	41%	2,015	(25)	-	-
Bond index swap contracts	100%	-	-	63	1	-	-
Futures contracts	100%	-	-	2	1	-	-
				$ 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.

PORTFOLIO INVESTMENTS

Schedule 9 (continued)

(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.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 10

	($ millions) 2009	2008
Agriculture Financial Services Corporation	$ 1,108	$ 994
Alberta Social Housing Corporation	203	224
Alberta Investment Management Corporation	28	13
	$ 1,339	$ 1,231

OTHER LOANS, ADVANCES AND INVESTMENTS

Schedule 11

	($ millions) 2009	2008
Loans and advances		
Farm Credit Stability Act	$ 1	$ 2
Investments		
N.A. Properties (1994) Ltd.	2	2
Alberta Investment Management Corporation	4	4
	6	6
	$ 7	$ 8

TANGIBLE CAPITAL ASSETS

Schedule 12

	2009	2008
($ millions)	Computer Hardware & Software	Computer Hardware & Software
Estimated useful life	5 years	5 years
Historical Cost		
Beginning of year	$ 21	$ 28
Additions	3	3
Disposals	-	(10)
	24	21
Accumulated Amortization		
Beginning of year	15	18
Amortization expense	2	3
Effect of disposals	-	(6)
	17	15
Net book value at March 31st	$ 7	$ 6

ACCOUNTS AND ACCRUED INTEREST PAYABLE

Schedule 13

($ millions)	2009	2008
Corporate income tax receipts in abeyance	$ 532	$ 488
Corporate income tax refunds payable	543	324
Accrued interest on unmatured debt	19	27
Alberta Heritage Savings Trust Fund	-	113
Community Development Trust	63	-
Other	170	93
	$ 1,327	$ 1,045

UNMATURED DEBT

Schedule 14

($ millions)	2009				2008	
	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]	0.38	0.22	$ 40	$ 40	$ 689	$ 695
Fixed rate long-term [d]	6.64	4.00	1,950	2,167	1,757	1,988
	6.52	3.93	$ 1,990	$ 2,207	$ 2,446	$ 2,683

UNMATURED DEBT

Schedule 14 (continued)

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 $679 (2008: $679) held by the Canada Pension Plan Investment Fund.

Debt principal repayment requirements at par in each of the next five years, including short-term debt, maturing in 2009-10, and thereafter are as follows:

2009-10	$ 112
2010-11	446
2011-12	448
2012-13	269
2013-14	112
Thereafter	605
	1,992
Unamortized discount	(2)
	$ 1,990

None of the debt has call provisions (2008: 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)

	2009		2008	
	Notional Amount	**Net Fair Value**	**Notional Amount**	**Net Fair Value**
Interest rate swaps	$ -	-	$ 250	3

LIABILITY FOR PENSION OBLIGATIONS

Schedule 15

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 Public Service Pension Plan, Public Service Management (Closed Membership) Pension Plan, Local Authorities Pension Plan, Management Employees Pension Plan, and Provincial Judges and Master in Chambers 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 Plans, 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)			
	2009 Pension Obligation	**2009 Pension Provision**	**Restatement of opening obligation**	**2008 Pension Obligation**
Obligations to pension plans for Government of Alberta's employer share for former and current employees				
Public Service Management (Closed Membership) Pension Plan [a]	$ 650	$ (48)	$ -	$ 698
Local Authorities Pension Plan [b]	186	29	157	-
Management Employees Pension Plan [c]	35	15	-	20
Provincial Judges and Masters in Chambers Pension Plan [e]	4	-	-	4
	875	(4)	157	722
Obligations to pension plans for Government of Alberta's commitment towards pre-1992 obligations				
Teachers' Pension Plans [f]	8,478	1,702	-	6,776
Universities Academic Pension Plan [g]	266	61	-	205
Special Forces Pension Plan [g]	112	62	-	50
	8,856	1,825	-	7,031
Obligations to the Members of the Legislative Assembly [h]	50	-		50
	$ 9,781	$ 1,821	$ 157	$ 7,803

a) 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.

b) 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, regional health authorities, 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 3.43% of pensionable earnings shared equally between employers and employees until December 31, 2020. The pension obligation of $186 million (2008: nil) includes a $157 million restatement made to opening net assets per Note 3 (b) and the 2009 provision of $29 million.

c) 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 7.2% of pensionable earnings shared between employees and employers until December 31, 2018. Current services costs are funded by employers and employees. The government guarantees payment of all benefits arising from service before 1994.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 15 (continued)

d) 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.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2009 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.

f) The Department of Finance and Enterprise assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plans. The extrapolated value of this obligation at March 31, 2009 is $8,478 million (2008: $6,776 million) due to a change in the discount rate from 7.25% to 5.0%. The obligation of $8,478 million is comprised of a loan payable to Teachers' Pension Plan of $1,078 million and accrued benefit obligation of $7,400 million. The Department currently funds 100% of this obligation.

g) 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.

h) 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.

Liabilities for pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services and actuarial extrapolations performed at December 31, 2008 or March 31, 2009 for accounting purposes. The assumptions used in the valuations and 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 inevitably 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.

Information about the economic assumptions used in the most recent actuarial extrapolations for accounting purposes is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

LIABILITY FOR PENSION OBLIGATIONS

Schedule 15 (continued)

Plan	Latest Valuation	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Public Service Management (Closed Membership) Pension Plan	December 31, 2005	na	2.25	5.00
Local Authorities Pension Plan	December 31, 2007	3.50	2.25	6.30
Public Service Pension Plan	December 31, 2005	3.50	2.25	7.00
Management Employees Pension Plan	December 31, 2006	3.50	2.25	6.75
Provincial Judges and Masters in Chambers Pension Plan	December 31, 2005	3.50	2.25	6.50
Teachers' Pension Plans	August 31, 2008	3.50	2.25	5.00
Universities Academic Pension Plan	December 31, 2006	3.00	2.70	6.70
Special Forces Pension Plan	December 31, 2006	3.50	2.25	6.50
Members of the Legislative Assembly Pension Plan	March 31, 2006	na	2.25	5.00

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-92 Pension Plans and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

OTHER ACCRUED LIABILITIES

Schedule 16

	($ millions) 2009	2008
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 204	$ 256
Vacation entitlements	6	4
	$ 210	$ 260

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 17

($ millions)

	2009 Department of Finance and Enterprise	2009 Others	2009 Total	2008 Total
Debentures				
Alberta Capital Finance Authority	$ -	$ 6,812	$ 6,812	$ 5,739
Alberta Social Housing Corporation	203	74	277	300
	203	6,886	7,089	6,039
Deposits				
Alberta Treasury Branches	-	23,881	23,881	21,176
	$ 203	$ 30,767	$ 30,970	$ 27,215

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

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 17 (continued)

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

			($ millions)	
Entity	**Date**	**Position**	**2009**	**2008**
Alberta Capital Finance Authority	December 31, 2008	Shareholders' Equity	$ 33	$ 15
Alberta Social Housing Corporation	March 31, 2009	Surplus	$ 596	$ 534
Alberta Treasury Branches	March 31, 2009	Equity	$ 1,759	$ 1,669

RELATED PARTY TRANSACTIONS

Schedule 18

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 Administration Corporation and the Deputy Minister of Finance and Enterprise is a director of the Alberta Capital Finance Authority and Alberta Investment Management Corporation. Alberta Pensions Administration 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 $33 million at December 31, 2008 (2007: $15 million), to municipal and other shareholders, which have borrowed money from the Corporation. During the 2009 fiscal year, the Department paid $77 million (2008: $91 million) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions Administration Corporation is not significant, either on a cost or on an equity basis.

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

The Department had transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties.

RELATED PARTY TRANSACTIONS

Schedule 18 (continued)

($ millions)

	Entities in the Ministry		Other Entities	
	2009	**2008**	**2009**	**2008**
Revenues				
Transfers	$ -	$ 358	$ 56	$ 277
Interest	3	3	72	67
Charges for services	31	25	-	32
	$ 34	$ 386	$ 128	$ 376
Expenses				
Cost of services	$ 4	$ 1,295	$ 73	$ 79
Assets				
Accounts receivable	$ 85	$ 94	$ 25	$ 97
Accrued interest receivable	3	1	13	14
Loans, advances and investments	34	19	1,311	1,218
	$ 122	$ 114	$ 1,349	$ 1,329
Liabilities				
Accounts and accrued interest payable	$ -	$ 113	$ -	$ -
School Construction Debentures	-	-	204	256
	$ -	$ 113	$ 204	$ 256

($ millions)

	Other Entities	
	2009	**2008**
Expenses - incurred by others		
Accommodation and air travel	$ 5	$ 3
Corporate and internal audit services	-	2
Legal services	2	2
	$ 7	$ 7

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

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 19.

ALLOCATED COSTS BY PROGRAM

Schedule 19

($ millions)

Program	Expenses (1)	Expenses incurred by Others (2)	Valuation Adjustments (3)	Total 2009	Total 2008 Restated (Note 3)
Ministry support services	$ 11	$ 5	$ -	$ 16	$ 13
Fiscal planning and economic analysis	4		-	4	4
Tax and revenue management	33	2	-	35	33
Enterprise	24	-	-	24	21
Investment, treasury and risk management	9	-	-	9	26
Financial sector and pensions	7	-	-	7	9
Payments to Alberta Heritage Savings Trust Fund	-	-	-	-	918
Teachers' pension liability funding	242	-	-	242	197
Transfers and debt servicing costs and pensions	326	-	1,822	2,148	3,049
	$ 656	$ 7	$ 1,822	$ 2,485	$ 4,270

Total allocated costs of $2,485 million are comprised of total expenses per Statement of Operations amounting to $2,478 million and expenses incurred by others amounting to $7 million.

1) Expenses – directly incurred as per Statement of Operations, excluding valuation adjustments.
2) Includes accommodation and air travel $5 million, corporate and audit services $0 and legal services $2 million.
3) Includes vacation pay of $1 million and pension provisions of $1,821 million.

ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

Year Ended March 31, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2009 and the statements of operations and net assets and cash flows for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Financial Position

March 31, 2009

	($ thousands) 2009	2008
Assets		
Portfolio investments (Note 3)	$ 484,857	$ 487,110
Liabilities		
Administration expense payable	$ 26	$ -
Net Assets (Note 5)	484,831	487,110
	$ 484,857	$ 487,110

Statement of Operations and Net Assets

For the Year Ended March 31, 2009

	($ thousands) 2009		2008
	Budget	Actual	Actual
Net investment income (Note 6)	$ 18,000	$ 16,978	$ 21,280
Transfers to the Ministry of Health and Wellness (Note 5b)	(25,000)	(19,257)	(25,000)
Change in net assets	$ (7,000)	(2,279)	(3,720)
Net assets at beginning of year		487,110	490,830
Net assets at end of year		$ 484,831	$ 487,110

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

Statement of Cash Flows

For the Year Ended March 31, 2009

	2009 ($ thousands)	2008 ($ thousands)
Operating transactions		
Net investment income	$ 16,978	$ 21,280
Non-cash items included in net investment income	(666)	(207)
	16,312	21,073
Increase in payables	26	-
Cash provided by operating transactions	16,338	21,073
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	19,306	13,000
Purchase of investments	(16,364)	(20,549)
Cash provided by (applied to) investing transactions	2,942	(7,549)
Transfers		
Transfers to the Foundation	(19,257)	(25,000)
Cash applied to transfers	(19,257)	(25,000)
Increase (decrease) in cash	23	(11,476)
Cash at beginning of year	179	11,655
Cash at end of year	$ 202	$ 179
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 202	$ 179

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

Notes to the Financial Statements

For the Year Ended March 31, 2009

($ 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* ("the Act"), Chapter A-14.2, Revised Statutes of Alberta 2006. 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 fixed-income 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

Fixed-income securities 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.

b) INVESTMENT INCOME AND EXPENSES

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

Net realized 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 recorded at fair value 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 period 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.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

i) Public fixed-income securities are valued at the period-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.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include credit default swaps. 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 credit default swaps at the reporting date is valued based on discounted cash flows using current market yields and calculated default probabilities.

NOTE 3 PORTFOLIO INVESTMENTS

($ thousands)

	2009			2008		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-Income Securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 202	$ 202	-	$ 179	$ 179	-
Short Term Bond Pool (b)	484,655	500,727	100.0	486,931	492,722	100.0
Total Investments	**$ 484,857**	**$ 500,929**	**100.0**	**$ 487,110**	**$ 492,901**	**100.0**

a) 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, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

b) The Fund holds a 4.8% interest in the Short Term Bond Pool, which holds fixed-income securities. As at March 31, 2009, securities held by the Pool have an average effective market yield of 2.84% per annum (2008: 3.87% per annum) and the following term structure based on principal amount: under 1 year: 5% (2008: 10%); 1 to 5 years: 85% (2008: 81%); 5 to 10 years: 9% (2008: 8%); 10 to 20 years: 0% (2008: 0%); over 20 years: 1% (2008: 1%).

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.

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. 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.

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, 2009 (in thousands):

	Maturity			2009		2008	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Credit default swap contracts	-	-	-	$ -	$ -	$ 2,500	$ 954

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 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	
	2009	2008
Transfers from the General Revenue Fund (a)	$ 500,000	$ 500,000
Accumulated investment income	54,088	37,110
Accumulated transfers to the Ministry (b)	(69,257)	(50,000)
Net Assets, at cost	$ 484,831	$ 487,110
Net Assets, at fair value	$ 500,903	$ 492,901

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 $19 million to the Minister of Health and Wellness.

NOTE 6 NET INVESTMENT INCOME

Investment income (loss) by type is as follows:

	($ thousands) 2009	2008
Interest and security lending income	$ 21,482	$ 21,351
Net realized gain on investments	3,077	207
Writedown of investments	(7,438)	(261)
Investment expenses (see Note 7)	(143)	(17)
Net investment income	**$ 16,978**	**$ 21,280**

NOTE 7 INVESTMENT EXPENSES

Investment services are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation and part of the Ministry of Finance and Enterprise. 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) 2009	2008
Total Investment Expenses	$ 143	$ 17
Expenses as a percentage of net assets at fair value	0.03%	0.00%

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

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

	One Year Return
Time-weighted rates of return	
Overall actual market value gains	5.5%

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, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2009 and the statements of operations and net assets and cash flows for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Financial Position

March 31, 2009

	2009 ($ thousands)	2008 ($ thousands)
Assets		
Portfolio investments (Note 3)	$ 1,174,363	$ 1,502,089
Receivable from sale of investments	-	9,003
	$ 1,174,363	**$ 1,511,092**
Liabilities		
Administration expense payable	101	70
Net Assets (Note 6)	**1,174,262**	**1,511,022**
	$ 1,174,363	**$ 1,511,092**

Statement of Operations and Net Assets

For the year ended March 31, 2009

	2009 Budget ($ thousands)	2009 Actual ($ thousands)	2008 Actual ($ thousands)
Investment (loss) income	$ 62,678	$ (253,400)	$ 63,264
Investment expenses (Note 8)	(6,357)	(6,360)	(5,962)
Net investment (loss) income (Note 7)	56,321	(259,760)	57,302
Transfers from the General Revenue Fund (Note 6b)	-	-	150,000
Transfers to the Alberta Heritage Foundation for Medical Research (Note 6c)	(77,000)	(77,000)	(66,000)
Change in net assets	**$ (20,679)**	(336,760)	141,302
Net assets at beginning of year		1,511,022	1,369,720
Net assets at end of year		**$ 1,174,262**	**$ 1,511,022**

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

Statement of Cash Flows

For the year ended March 31, 2009

	($ thousands)	
	2009	**2008**
Operating transactions		
Net investment (loss) income	$ (259,760)	$ 57,302
Non-cash items included in net investment (loss) income	8,746	(8,281)
	(251,014)	49,021
Decrease (increase) in receivables	9,003	(8,303)
Increase (decrease) in payables	31	(526)
Cash (applied to) provided by operating transactions	(241,980)	40,192
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	463,020	216,983
Purchase of investments	(138,396)	(350,434)
Cash provided by (applied to) investing transactions	324,624	(133,451)
Transfers		
Transfers from the General Revenue Fund	-	150,000
Transfers to the Foundation	(77,000)	(66,000)
Cash (applied to) provided by transfers	(77,000)	84,000
Increase (decrease) in cash	5,644	(9,259)
Cash at beginning of year	8,470	17,729
Cash at end of year	$ 14,114	$ 8,470
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 14,114	$ 8,470

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

Notes to the Financial Statements

March 31, 2009
($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund ("the Fund") operates under the authority of the *Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000.

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 transfer to the Alberta Heritage Foundation for Medical Research while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

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

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland 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.

(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 realized 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 realized upon immediate sale, nor 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.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

i) 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 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.

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 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.

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

	($ thousands)			($ thousands)		
	2009			2008		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 14,114	$ 14,114	1.2	$ 8,470	$ 8,470	0.6
Currency Alpha Pool (b)	2,539	2,703	0.2	2,405	2,639	0.2
Tactical Asset Allocation Pool (c)	823	820	0.1	2,522	2,290	0.1
	17,476	**17,637**	**1.5**	**13,397**	**13,399**	**0.9**
Absolute Return Strategies (d)	**68,292**	**68,682**	**6.0**	**92,768**	**89,450**	**5.9**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	197,793	188,252	16.3	311,270	307,132	20.1
Private Mortgage Pool (f)	50,514	51,759	4.5	45,769	48,232	3.2
Fixed Income Overlay Strategy Pool (g)	(29,498)	(29,654)	(2.6)	-	-	-
	218,809	**210,357**	**18.2**	**357,039**	**355,364**	**23.3**
Inflation Sensitive						
Real Estate (Schedule B)						
Private Real Estate Pool (h)	110,448	155,970	13.5	112,158	162,421	10.6
Foreign Private Real Estate Pool (i)	8,714	10,411	0.9	6,201	5,753	0.4
	119,162	**166,381**	**14.4**	**118,359**	**168,174**	**11.0**
Private Income (j)	**43,265**	**43,899**	**3.8**	**19,751**	**21,575**	**1.4**
Timberland (k)	**4,945**	**6,670**	**0.6**	**4,347**	**5,796**	**0.4**
Equities						
Canadian Equities (Schedule C)						
Canadian Structured Equity Pool (l)	42,087	32,222	2.8	59,067	52,270	3.4
Canadian Pooled Equity Fund (m)	6,385	5,283	0.5	65,567	67,079	4.4
Canadian Equity Enhanced Index Pool (n)	22,554	19,968	1.7	32,756	34,056	2.2
Canadian Large Cap Equity Pool (o)	23,955	15,764	1.4	26,575	23,065	1.5
Growing Equity Income Pool (p)	47,158	46,066	4.0	14,522	14,458	0.9
Canadian Multi-Cap Pool (q)	45,729	42,212	3.6	73,734	71,121	4.7
Canadian Equity Overlay Strategy Pool (g)	15,100	15,444	1.3	-	-	-
	202,968	**176,959**	**15.3**	**272,221**	**262,049**	**17.1**
United States Equities (Schedule D)						
US Structured Equity Pool (r)	115,214	123,558	10.7	170,798	172,579	11.3
US Small/Mid Cap Equity Pool (s)	27,664	26,368	2.3	35,105	34,606	2.3
Portable Alpha United States Equity Pool (t)	49,545	52,362	4.6	64,542	64,224	4.2
Growing Equity Income Pool (p)	1,075	836	0.1	4,374	3,896	0.3
US Overlay Strategy Pool (g)	2,857	2,814	0.2	-	-	-
	196,355	**205,938**	**17.9**	**274,819**	**275,305**	**18.1**
Non-North American Equities (Schedule E)						
EAFE Active Equity Pool (u)	179,957	141,340	12.2	235,404	219,153	14.4
EAFE Structured Equity Pool (v)	46,938	44,900	3.9	60,782	59,703	3.9
Emerging Market Equity Pool (w)	5,564	3,985	0.4	10,707	10,190	0.7
EAFE Equity Overlay Strategy Pool (g)	22,448	22,448	1.9	-	-	-
	254,907	**212,673**	**18.4**	**306,893**	**289,046**	**19.0**
Private Equities (j)	**48,184**	**44,939**	**3.9**	**42,495**	**44,739**	**2.9**
Total Investments (x)	**$ 1,174,363**	**$ 1,154,135**	**100.0**	**$ 1,502,089**	**$ 1,524,897**	**100.0**

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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. As at March 31, 2009, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2009	**2008**
Absolute Return Strategy Pool	7.3	8.5
Canadian Equity Enhanced Equity Pool	7.0	8.2
Canadian Equity Overlay Strategy Pool	3.1	-
Canadian Large Cap Equity Pool	1.2	1.2
Canadian Multi-Cap Pool	4.2	4.9
Canadian Pooled Equity Fund	5.0	5.3
Canadian Structured Equity Pool	4.3	4.2
Currency Alpha Pool	3.4	3.4
EAFE Active Equity Pool	3.2	3.4
EAFE Equity Overlay Strategy Pool	3.1	-
EAFE Structured Equity Pool	5.3	5.0
Emerging Markets Equity Pool	1.4	2.2
Fixed Income Overlay Strategy Pool	3.1	-
Foreign Private Equity Pool (02)	7.0	7.0
Foreign Private Equity Pool (05)	7.2	7.2
Foreign Private Real Estate Pool	7.5	6.4
Global Private Equity Pool (07)	8.2	8.2
Global Private Equity Pool (08)	4.6	4.6
Growing Equity Income Pool	5.1	5.3
Portable Alpha United States Equity Pool	8.1	9.3
Private Equity Pool	-	6.6
Private Equity Pool (02)	7.5	7.5
Private Equity Pool (04)	6.4	6.4
Private Income Pool	6.0	6.0
Private Income Pool 2	6.9	6.9
Private Income Pool 3	10.9	-
Private Mortgage Pool	2.6	2.6
Private Real Estate Pool	3.1	3.3
Tactical Asset Allocation Pool	7.4	7.8
Timberland Pool	6.5	6.5
US Overlay Strategy Overlay Pool	3.1	-
US Small/Mid Cap Equity Pool	2.5	2.7
US Structured Equity Pool	4.6	4.4
Universe Fixed Income Pool	2.5	3.2

a) 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 short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

Note 3 (continued)

b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving 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. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

c) At March 31, 2009, the Tactical Asset Allocation Pool is comprised of cash.

d) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

e) The Universe 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 participants' 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 March 31, 2009, securities held by the Pool have an average effective market yield of 7.4% per annum (2008: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 6% (2008: 4%); 1 to 5 years: 36% (2008: 32%); 5 to 10 years: 28% (2008: 34%); 10 to 20 years: 16% (2008: 12%); and over 20 years: 14% (2008: 18%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.0%), specialty mortgages (1.9%) and provincial bond residuals (5.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2009, securities held by the Pool have an average effective market yield of 5.0% per annum (2008: 4.9% per annum) and the following term structure based on principal amount: under 1 year: 2% (2008: 3%); 1 to 5 years: 28% (2008: 12%); 5 to 10 years: 50% (2008: 61%); 10 to 20 years: 3% (2008: 5%); and over 20 years: 17% (2008: 19%).

g) 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, EAFE equities, major foreign currencies and styles and sectors. At March 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.

h) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. 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. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

i) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

j) The Private Income Pools invest in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%. Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

k) The Timberland Pool provides high current income and long investment horizons. The timberland investment is 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 3 (continued)

l) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. 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 foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

m) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection, while remaining sector neutral.

n) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

o) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

p) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

q) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(l)).

r) The U.S Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(l)).

s) The US Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the small cap and mid cap US equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

t) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S&P) 500 Index over a four-year period.

u) The Europe, Australasia and Far East (EAFE) Active Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

Note 3 (continued)

v) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3(l)).

w) 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 Emerging Markets Free (MSCI EMF) Index over a four-year period.

x) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). 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 are temporary in nature.

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 2008-2009 fiscal year:

Equities	56.5%
Fixed income securities	21.5%
Inflation sensitive	15.0%
Cash and Absolute Return Strategies	7.0%

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.

Note 5 (continued)

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, 2009:

	Maturity			2009 ($ thousands)		2008	
	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	100%	-	-	$ 291,489	$ 834	$ 369,769	$ 1,039
Interest rate swap contracts	15%	47%	38%	98,977	(5,510)	199,529	(2,374)
Forward foreign exchange contracts	100%	-	-	229,845	(7,946)	256,479	(4,397)
Cross-currency interest rate swaps	36%	36%	28%	77,780	(2,871)	89,153	191
Credit default swap contracts	3%	56%	41%	310,885	(5,968)	345,236	(2,382)
Bond index swap contracts	100%	-	-	9,272	71	35,178	2,387
Futures contracts	100%	-	-	103,704	15,749	62,876	2,231
Swap option contracts	-	-	-	-	-	165,540	63
				$ 1,121,952	$ (5,641)	$ 1,523,760	$ (3,242)

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	
	2009	2008
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 300,000	$ 300,000
Transfers from the General Revenue Fund (b)	500,000	500,000
Accumulated investment income	1,496,262	1,756,022
Accumulated transfers to the Foundation (c)	(1,122,000)	(1,045,000)
Net Assets, at cost	$ 1,174,262	$ 1,511,022
Net Assets, at fair value	$ 1,154,034	$ 1,533,830

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980. The *Alberta Heritage Foundation for Medical Research Act (the Act)* provides that money required by the Foundation for the furtherance of its objectives shall be paid from the Fund, but no money shall be paid out of the Fund if the payment would result in the value of the assets of the Fund, at cost, being less than $300 million {section 8(2)}.

(b) Section 7.1 of *the Act* provides that the Fund may receive up to $500 million.

(c) In accordance with section 8(1) of *the Act*, the Fund paid out $77 million to the Foundation during the year.

NOTE 7 NET INVESTMENT INCOME (LOSS)

Investment income (loss) by asset class is as follows:

	($ thousands) 2009	2008
Real estate	$ 10,543	$ 18,912
Private income	3,541	1,597
Timberland	(775)	578
Private equities	(2,612)	3,384
Deposits and fixed-income securities	(6,037)	17,840
Absolute return strategies	(25,179)	9,589
Canadian equities	(63,251)	36,661
Non-North American equities	(81,730)	2,201
United States equities	(94,260)	(33,460)
Net investment (loss) income	**$ (259,760)**	**$ 57,302**

Investment income (loss) by type is as follows:

	($ thousands) 2009	2008
Interest, dividends, rental income and security lending income	$ 52,512	$ 58,970
Net realized (loss) gain on investments	(225,287)	27,232
Writedown of investments	(80,625)	(22,938)
Investment expenses (see Note 8)	(6,360)	(5,962)
Net investment (loss) income	**$ (259,760)**	**$ 57,302**

NOTE 8 INVESTMENT EXPENSES

Investment services are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation and part of the Ministry of Finance and Enterprise. 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) 2009	2008
Total Investment Expenses	$ 6,360	$ 5,962
Expenses as a percentage of net assets at fair value	0.55%	0.39%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (SCHEDULE F)

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

	One Year Return	Five Year Compound Annualized Return	Eight Year Compound Annualized Return	Ten Year Compound Annualized Return
Time-weighted rates of return				
Overall actual market value (loss) gain	-20.4%	1.7%	2.3%	2.7%
Benchmark return [(1)]	-16.2%	2.3%	2.5%	2.6%
Value (lost) added from active management	-4.2%	-0.6%	-0.2%	0.1%

(1) The overall benchmark return for year ended March 31, 2009 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2009 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 9,967	$ 9,967	$ 4,101	$ 4,101
Fixed-income securities (a) (b)				
Corporate, public and private	180,884	171,816	240,218	234,680
Government of Canada, direct and guaranteed	1,112	1,164	69,199	70,834
Provincial, direct and guaranteed:				
Alberta	50	50	94	98
Other provinces	29,541	30,105	40,659	42,881
Municipal	13	13	16	18
	211,600	203,148	350,186	348,511
Receivable from sale of investments and accrued investment income	2,456	2,456	6,054	6,054
Accounts payable and accrued liabilities	(5,214)	(5,214)	(3,302)	(3,302)
	(2,758)	(2,758)	2,752	2,752
	$ 218,809	$ 210,357	$ 357,039	$ 355,364

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Government of Canada bonds has been reduced by the notional amount of Canada bond futures contracts totalling $34,899 (2008: $nil).

b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 6.91% per annum (2008: 4.98% per annum) and the following term structure based on principal amount:

	2009	2008
	%	
under 1 year	6	4
1 to 5 years	39	29
5 to 10 years	22	38
10 to 20 years	16	11
over 20 years	17	18
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 930	$ 930	$ 224	$ 224
Real estate (a)				
Office	42,116	69,707	44,147	72,312
Retail	34,286	45,031	36,196	50,712
Industrial	21,773	24,825	20,109	24,068
Residential	4,708	8,842	5,545	9,168
	102,883	148,405	105,997	156,260
Foreign Private Real Estate Pool	8,714	10,411	6,201	5,753
Participation units	5,570	5,570	5,861	5,861
Accrued income and accounts receivable	1,065	1,065	76	76
	$ 119,162	$ 166,381	$ 118,359	$ 168,174

(a) The following is a summary of real estate investments by geographic location:

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 59,445	$ 75,434	$ 62,992	$ 83,910
Alberta	30,083	56,783	28,861	55,678
Quebec	11,509	12,969	12,165	13,314
British Columbia	1,846	3,219	1,979	3,358
	$ 102,883	$ 148,405	$ 105,997	$ 156,260

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

MARCH 31, 2009

($ thousands)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 5,758	$ 5,758	$ 5,933	$ 5,933
Public equities (a) (b)				
Consumer discretionary	10,438	8,298	16,287	12,837
Consumer staples	7,948	7,133	7,344	5,923
Energy	50,768	44,294	67,768	69,154
Financials	54,466	46,850	79,210	71,045
Health care	801	644	542	367
Industrials	12,739	10,356	14,998	13,688
Information technology	6,520	5,851	9,772	12,248
Materials	33,108	30,756	42,262	43,602
Telecommunication services	10,766	9,579	14,392	14,215
Utilities	3,398	2,592	2,581	2,185
	190,952	166,353	255,156	245,264
Pooled Funds	5,309	3,899	11,304	11,024
Receivable from sale of investments and accrued investment income	1,223	1,223	1,530	1,530
Accounts payable and accrued liabilities	(274)	(274)	(1,702)	(1,702)
	949	949	(172)	(172)
	$ 202,968	$ 176,959	$ 272,221	$ 262,049

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and futures contracts totalling $112,002 (2008: $90,928).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		**2008**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 1,776	$ 1,776	$ 7,994	$ 7,994
Public equities (a) (b)				
Consumer discretionary	17,671	18,567	26,513	25,901
Consumer staples	22,570	23,979	27,497	27,811
Energy	23,061	24,522	32,609	34,945
Financials	24,243	24,551	48,931	47,118
Health care	29,466	31,374	32,470	32,479
Industrials	20,483	21,123	35,437	35,409
Information technology	34,992	36,985	43,770	43,457
Materials	7,464	7,688	11,266	11,843
Telecommunication services	7,036	7,433	8,676	8,745
Utilities	8,945	9,304	10,680	10,630
	195,931	205,526	277,849	278,338
Pooled Funds	440	428	544	541
	196,371	205,954	278,393	278,879
Receivable from sale of investments and accrued investment income	1,163	1,163	1,293	1,293
Accounts payable and accrued liabilities	(2,955)	(2,955)	(12,861)	(12,861)
	(1,792)	(1,792)	(11,568)	(11,568)
	$ 196,355	$ 205,938	$ 274,819	$ 275,305

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and futures contracts totalling $179,215 (2008: $204,055).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's (S&P 500) Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule E

MARCH 31, 2009

	Fund's share ($ thousands)			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 5,768	$ 5,768	$ 5,222	$ 5,222
Public equities (a) (b)				
Consumer discretionary	24,490	20,447	33,688	30,639
Consumer staples	27,017	22,602	25,066	24,563
Energy	25,475	21,298	25,500	24,023
Financials	50,008	41,446	64,346	58,306
Health care	25,253	21,032	23,676	20,302
Industrials	28,445	22,775	41,174	40,298
Information technology	16,469	13,240	18,907	17,019
Materials	17,088	15,227	26,831	26,769
Telecommunication services	21,212	17,842	22,627	21,906
Utilities	12,254	10,267	15,918	15,569
	247,711	206,176	297,733	279,394
Emerging markets pooled funds	2,644	1,945	5,150	5,639
	250,355	208,121	302,883	285,033
Receivable from sale of investments and accrued investment income	4,441	4,441	4,199	4,199
Accounts payable and accrued liabilities	(5,657)	(5,657)	(5,411)	(5,408)
	(1,216)	(1,216)	(1,212)	(1,209)
	$ 254,907	$ 212,673	$ 306,893	$ 289,046

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and futures contracts totalling $67,715 (2008: $64,724).

b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share ($ thousands)			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Japan	$ 56,935	$ 46,714	$ 60,284	$ 53,621
United Kingdom	52,661	42,328	68,449	60,409
France	28,557	23,411	32,888	31,514
Germany	19,955	16,266	28,241	27,249
Switzerland	18,103	15,739	18,536	18,799
Australia	13,324	11,730	12,044	11,895
Spain	10,180	8,473	12,357	12,793
Italy	8,011	6,491	10,514	10,045
Netherlands	7,789	6,482	12,306	11,459
Hong Kong	4,850	4,292	7,312	6,906
Other	29,990	26,195	39,952	40,343
	$ 250,355	$ 208,121	$ 302,883	$ 285,033

SCHEDULE OF INVESTMENT RETURNS

Schedule F

MARCH 31, 2009

The Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

Time-weighted Rates of Return (in percent)	**One Year Return 2009**	**5 Year Compound Annualized Return**	**8 Year Compound Annualized Return**
Overall	**(20.4)**	**1.7**	**2.3**
Policy Benchmark	***(16.2)***	***2.3***	***2.5***
Value lost from active management	**(4.2)**	**(0.6)**	**(0.2)**
Short-term fixed income	**2.8**	**3.7**	**3.5**
DEX 91-day T-Bill Index	*2.4*	*3.2*	*3.2*
Value added from active management	0.4	0.5	0.3
Absolute return strategies	**(23.8)**	**(0.9)**	**n/a**
HFRX Global Hedged Index	*(21.7)*	*(0.6)*	*n/a*
Value lost from active management	(2.1)	(0.3)	n/a
Long-term fixed income	**(3.8)**	**3.2**	**5.4**
DEX Universe Bond Index	*4.9*	*5.2*	*6.4*
Value lost from active management	(8.7)	(2.0)	(1.0)
Real estate	**4.7**	**16.5**	**13.3**
IPD Large Institutional All Property Index	*1.6*	*12.2*	*10.6*
Value added from active management	3.1	4.3	2.7
Private income	**8.6**	**13.2**	**n/a**
Consumer Price Index (CPI) plus 6%	*7.4*	*7.9*	*n/a*
Value added from active management	1.2	5.3	n/a
Timberland Investments	**(7.4)**	**n/a**	**n/a**
CPI plus 4%	*5.4*	*n/a*	*n/a*
Value lost from active management	(12.8)	n/a	n/a
Canadian equities	**(33.1)**	**2.8**	**3.7**
S&P/TSX Composite Index	*(32.4)*	*2.8*	*4.0*
Value lost from active management	(0.7)	0.0	(0.3)
United States equities	**(30.2)**	**(7.5)**	**(6.5)**
S&P 1500 Index	*(23.9)*	*(5.3)*	*(5.3)*
Value lost from active management	(6.3)	(2.2)	(1.2)
Non-North American equities	**(36.8)**	**(2.8)**	**(2.5)**
MSCI EAFE Index	*(34.4)*	*(2.9)*	*(2.9)*
Value added (lost) from active management	(2.4)	0.1	0.4
Private equities	**(16.2)**	**4.1**	**n/a**
CPI plus 8%	*9.4*	*9.9*	*n/a*
Value lost from active management	(25.6)	(5.8)	n/a

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2009 and the statements of operations and net assets and cash flows for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Financial Position

March 31, 2009

	($ millions) 2009	2008
Assets		
Portfolio investments (Note 3)	$ 13,819	$ 16,339
Receivable from sale of investments and accrued income	20	21
Due from the General Revenue Fund	-	113
	$ 13,839	$ 16,473
Liabilities		
Administration expense payable	$ 1	$ 1
Liabilities for investment purchases	-	60
	1	61
Net Assets (Note 6)	13,838	16,412
	$ 13,839	$ 16,473

Statement of Operations and Net Assets

For the Year Ended March 31, 2009

	($ millions) 2009		2008
	Budget	**Actual**	**Actual**
Investment (loss) income	$ 835	$ (2,501)	$ 888
Investment expenses (Note 8)	(66)	(73)	(64)
Net (loss) income (Note 7)	769	(2,574)	824
Transfers to the General Revenue Fund (Note 6b)	(490)	-	(358)
(Loss) income retained in the Fund (Note 6b)	279	(2,574)	466
Transfers from the General Revenue Fund (Note 6b)	-	-	918
Change in net assets	$ 279	(2,574)	1,384
Net Assets at beginning of year		16,412	15,028
Net Assets at end of year		$ 13,838	$ 16,412

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

Statement of Cash Flows

Year Ended March 31, 2009

	($ millions) 2009	2008
Operating transactions		
Net (loss) income	$ (2,574)	$ 824
Non-cash items included in net (loss) income	63	(166)
	(2,511)	658
Decrease in accounts receivable	1	32
(Decrease) increase in accounts payable	(60)	56
Cash (applied to) provided by operating transactions	(2,570)	746
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,323	1,507
Purchase of investments	(1,983)	(2,513)
Cash provided by (applied to) investing transactions	2,340	(1,006)
Transfers		
Transfers from the General Revenue Fund	-	918
Transfers to the General Revenue Fund	-	(358)
Decrease (increase) in amounts due from the General Revenue Fund	113	(105)
Cash provided by transfers	113	455
(Decrease) increase in cash	(117)	195
Cash at beginning of year	217	22
Cash at end of year	$ 100	$ 217
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 100	$ 217

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

Notes to the Financial Statements

For the Year Ended March 31, 2009

($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 (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, 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

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland 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.

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 realized 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 period 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 realized upon immediate sale, nor 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.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

i) 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) Mortgages and 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) 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.

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)

	2009			2008		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 100	$ 100	0.7	$ 217	$ 217	1.3
Currency Alpha Pool (b)	28	29	0.2	27	29	0.2
Tactical Asset Allocation Pool (c)	9	9	0.1	26	24	0.1
	137	**138**	**1.0**	**270**	**270**	**1.6**
Absolute Return Strategies (d)	**782**	**813**	**5.8**	**910**	**891**	**5.2**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	3,502	3,343	23.9	4,458	4,407	26.0
Private Mortgage Pool (f)	702	697	5.0	618	626	3.7
Loans, directly held (g)	137	137	1.0	141	141	0.8
Fixed Income Overlay Strategy Pool (h)	(343)	(345)	(2.5)	-	-	-
	3,998	**3,832**	**27.4**	**5,217**	**5,174**	**30.5**
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (i)	1,246	1,818	13.0	1,148	1,747	10.3
Foreign Private Real Estate Pool (j)	99	117	0.9	85	79	0.5
	1,345	**1,935**	**13.9**	**1,233**	**1,826**	**10.8**
Private Income (k)	**484**	**483**	**3.5**	**259**	**285**	**1.7**
Timberland (l)	**67**	**90**	**0.6**	**59**	**78**	**0.5**
Equities						
Canadian **(Schedule C)**						
Canadian Structured Equity Pool (m)	419	355	2.5	573	545	3.2
Canadian Pooled Equity Fund (n)	65	58	0.4	633	686	4.0
Canadian Equity Enhanced Index Pool (o)	260	234	1.7	319	335	2.0
Canadian Large Cap Equity Pool (p)	262	177	1.3	286	253	1.5
Growing Equity Income Pool (q)	505	496	3.6	146	145	0.9
Canadian Multi-Cap Pool (r)	518	482	3.4	727	703	4.1
Canadian Equity Overlay Strategy Pool (h)	176	179	1.3	-	-	-
	2,205	**1,981**	**14.2**	**2,684**	**2,667**	**15.7**
United States **(Schedule D)**						
US Structured Equity Pool (s)	1,023	1,226	8.8	1,551	1,684	9.9
US Small/Mid Cap Equity Pool (t)	256	243	1.7	303	298	1.7
Portable Alpha United States Equity Pool (u)	495	533	3.8	558	552	3.3
Growing Equity Income Pool (q)	12	9	0.1	44	39	0.2
US Equity Overlay Strategy Pool (h)	33	33	0.2	-	-	-
	1,819	**2,044**	**14.6**	**2,456**	**2,573**	**15.1**
Non-North American **(Schedule E)**						
EAFE Active Equity Pool (v)	1,618	1,356	9.7	2,060	1,996	11.7
EAFE Structured Equity Pool (w)	386	355	2.6	522	502	3.0
Emerging Markets Equity Pool (x)	67	48	0.3	110	104	0.6
EAFE Equity Overlay Strategy Pool (h)	261	261	1.9	-	-	-
	2,332	**2,020**	**14.5**	**2,692**	**2,602**	**15.3**
Private Equities (k)	**650**	**625**	**4.5**	**559**	**605**	**3.6**
Total Investments (y)	**$ 13,819**	**$ 13,961**	**100.0**	**$ 16,339**	**$ 16,971**	**100.0**

Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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. As at March 31, 2009, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2009	**2008**
Absolute Return Strategy Pool	86.3	84.2
Canadian Equity Enhanced Index Pool	82.0	80.6
Canadian Equity Overlay Strategy Pool	35.8	-
Canadian Large Cap Equity Pool	13.5	13.6
Canadian Multi-Cap Pool	48.3	48.3
Canadian Pooled Equity Fund	55.1	53.9
Canadian Structured Equity Pool	47.3	43.8
Currency Alpha Pool	37.2	37.2
EAFE Active Equity Pool	30.5	30.8
EAFE Equity Overlay Strategy Pool	35.8	-
EAFE Structured Equity Pool	42.0	41.8
Emerging Markets Equity Pool	16.9	22.1
Fixed Income Overlay Strategy Pool	35.8	-
Foreign Private Equity Pool (02)	87.5	87.5
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	84.3	87.2
Global Private Equity Pool (07)	85.2	85.2
Global Private Equity Pool (08)	88.2	88.2
Growing Equity Income Pool	54.7	53.4
Portable Alpha United States Equity Pool	82.2	80.0
Private Equity Pool	-	13.6
Private Equity Pool (02)	88.7	88.8
Private Equity Pool (04)	89.0	89.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.6	88.6
Private Income Pool 2	86.7	86.7
Private Income Pool 3	60.9	-
Private Mortgage Pool	35.4	33.9
Private Real Estate Pool	35.7	35.3
Tactical Asset Allocation Pool	83.0	82.1
Timberland Pool	87.6	87.6
US Equity Overlay Strategy Pool	35.8	-
US Small/Mid Cap Equity Pool	23.0	23.0
US Structured Equity Pool	45.2	42.5
Universe Fixed Income Pool	44.4	45.6

a) 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 short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving 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. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

c) At March 31, 2009, the Tactical Asset Allocation Pool is comprised of cash.

d) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global 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 3 (continued)

e) The Universe 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 participants' 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 March 31, 2009, securities held by the Pool have an average effective market yield of 7.4% per annum (2008: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 6% (2008: 4%); 1 to 5 years: 36% (2008: 32%); 5 to 10 years: 28% (2008: 34%); 10 to 20 years: 16% (2008: 12%); and over 20 years: 14% (2008: 18%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.0%), specialty mortgages (1.9%) and provincial bond residuals (5.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2009, securities held by the Pool have an average effective market yield of 5.0% per annum (2008: 4.9% per annum) and the following term structure based on principal amount: under 1 year: 2% (2008: 3%); 1 to 5 years: 28% (2008: 12%); 5 to 10 years: 50% (2008: 61%); 10 to 20 years: 3% (2008: 5%); and over 20 years: 17% (2008: 19%).

g) As at March 31, 2009, investment in loans, excluding accrued interest, includes the Ridley Grain loan amounting to $134 million (2008: $138 million) and the Vencap loan amounting to $2.8 million (2008: $2.5 million).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $134 million and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2009 amounted to $43.5 million (2008: $43.5 million). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $53 million, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

h) 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, EAFE equities, major foreign currencies and styles and sectors. At March 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.

i) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. 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. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

j) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

k) The Private Income Pools invest in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%. Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

l) 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%.

Note 3 (continued)

m) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. 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 foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

n) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

o) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

p) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

q) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

r) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (m)).

s) The U.S Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(m)).

t) The U.S. Small/Mid Cap Equity Pool consists of one portfolio of publicly traded U.S. equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

u) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

v) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

w) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (m)).

Note 3 (continued)

x) 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 Emerging Markets Free (MSCI EMF) Index over a four-year period.

y) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). 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.

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, 2009: (in millions)

	Maturity			2009		2008	
	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	100%	-	-	$ 2,910	$ 9	$ 3,493	$ 10
Interest rate swap contracts	15%	47%	38%	1,088	(55)	2,511	(23)
Forward foreign exchange contracts	100%	-	-	2,635	(94)	2,779	(50)
Cross-currency interest rate swaps	36%	36%	28%	854	(32)	937	6
Credit default swap contracts	3%	56%	41%	5,398	(88)	4,819	(31)
Bond index swap contracts	100%	-	-	165	1	462	24
Futures contracts	100%	-	-	1,160	175	723	24
Swap option contracts	-	-	-	-	-	2,375	1
				$ 14,210	$ (84)	$ 18,099	$ (39)

Note 4 (continued)

a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The 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 proposed the following asset mix policy for the Fund for 2008-09.

Equities	51%
Fixed income securities	24%
Inflation sensitive	18%
Cash and Absolute Return Strategies	7%

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	
	2009	**2008**
Accumulated net income	$ 28,220	$ 30,794
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	(28,425)	(28,425)
Amount Retained for Inflation-proofing	1,562	1,562
	(26,863)	(26,863)
Capital Expenditures (1976-1995) (c)	(3,486)	(3,486)
	(30,349)	(30,349)
Net Assets, at cost	**$ 13,838**	**$ 16,412**
Net Assets, at fair value	**$ 13,980**	**$ 17,044**

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

b) During the period, the Fund sustained net losses of $2,574 million. In accordance with section 8(2) of the Act, the net income of the Fund, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. If the income of the Fund is less than that required to be retained, then the income, if any, shall be retained in the Fund. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation proofing by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the year.

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 NET INCOME (LOSS) (in millions)

Investment income (loss) by asset class is as follows:

	2009	2008
Real estate	$ 90	$ 221
Private income	61	22
Timberland	(11)	8
Private equities	(34)	44
Deposit and fixed-income securities	(42)	303
Absolute return strategies	(286)	99
Canadian equities	(669)	398
Non-North American equities	(755)	30
United States equities	(928)	(301)
Net (loss) income	**$ (2,574)**	**$ 824**

Investment income (loss) by type is as follows:

	2009	2008
Interest, dividends, rental income and security lending income	$ 647	$ 678
Net realized (loss) gain on investments	(2,265)	435
Writedown of investments	(883)	(225)
Investment expenses (see Note 8)	(73)	(64)
Net (loss) income	**$ (2,574)**	**$ 824**

NOTE 8 INVESTMENT EXPENSES (in millions)

Investment services are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation and part of the Ministry of Finance and Enterprise. 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.

	2009	2008
Total Investment expenses	$ 73	$ 64
Percent of net assets at fair value	0.52%	0.38%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (SCHEDULE F)

The Fund is expected to generate a long-term rate of return of 7.7%, which includes a real rate of return of 4.5% plus CPI of 2.2% and 1.0% from active management. The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return	Eight Year Compound Annualized Return	Ten Year Compound Annualized Return
Time-weighted rates of return				
Overall actual market value (loss) gain	-18.1%	2.6%	3.2%	3.5%
Benchmark return	-14.0%	2.9%	3.1%	3.4%
Value (lost) added from active management	-4.1%	-0.3%	0.1%	0.1%

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2009 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

Schedule A

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

MARCH 31, 2009
(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 145	$ 145	$ 59	$ 59
Fixed-income securities (a) (b)				
Corporate, public and private	3,050	2,843	3,405	3,306
Government of Canada, direct and guaranteed	204	234	991	1,016
Provincial, direct and guaranteed:				
Alberta	1	1	1	1
Other provinces	512	523	580	611
Loans	137	137	141	141
	3,904	3,738	5,118	5,075
Receivable from sale of investments and accrued investment income	42	42	87	87
Accounts payable and accrued liabilities	(93)	(93)	(47)	(47)
	(51)	(51)	40	40
	$ 3,998	**$ 3,832**	**$ 5,217**	**$ 5,174**

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Government of Canada bonds has been reduced by the notional amount of Canada bond futures contracts totalling $406 million (2008: $nil).

b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 7.2% per annum (2008: 5.2% per annum) and the following term structure based on principal amount:

	2009	2008
	%	%
under 1 year	5	4
1 to 5 years	36	28
5 to 10 years	27	39
10 to 20 years	15	11
over 20 years	17	18
	100	100

Schedule B
ALBERTA HERITAGE SAVINGS TRUST FUND
SCHEDULE OF INVESTMENTS IN REAL ESTATE
MARCH 31, 2009
(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 11	$ 11	$ 2	$ 2
Real estate (a)				
Office	474	813	451	778
Retail	386	525	369	545
Industrial	245	289	205	259
Residential	53	103	57	99
	1,158	1,730	1,082	1,681
Foreign Private Real Estate Pool	99	117	85	79
Participation units	65	65	63	63
Accrued income and accounts receivable	12	12	1	1
	$ 1,345	**$ 1,935**	**$ 1,233**	**$ 1,826**

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 669	$ 879	$ 643	$ 903
Alberta	339	662	295	599
Quebec	129	151	124	143
British Columbia	21	38	20	36
	$ 1,158	$ 1,730	$ 1,082	$ 1,681

Schedule C

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

MARCH 31, 2009
(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 66	$ 66	$ 61	$ 61
Public equities (a) (b)				
Consumer discretionary	112	93	161	132
Consumer staples	85	79	73	61
Energy	552	495	667	704
Financials	590	523	783	724
Health care	8	7	5	4
Industrials	136	116	147	140
Information technology	71	65	97	125
Materials	359	344	415	443
Telecommunication services	118	107	143	145
Utilities	36	29	24	22
	2,067	1,858	2,515	2,500
Pooled Funds	61	46	110	108
Receivable from sale of investments and accrued investment income	14	14	16	16
Accounts payable and accrued liabilities	(3)	(3)	(18)	(18)
	11	11	(2)	(2)
	$ 2,205	**$ 1,981**	**$ 2,684**	**$ 2,667**

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and futures contracts totalling $1,243 (2008: $920).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule D

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

MARCH 31, 2009
(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 19	$ 19	$ 77	$ 77
Public equities (a) (b)				
Consumer discretionary	163	184	237	242
Consumer staples	209	239	246	262
Energy	213	245	294	328
Financials	226	243	437	441
Health Care	273	311	290	303
Industrials	189	209	317	330
Information technology	325	367	391	406
Materials	69	76	101	110
Telecommunication services	65	74	78	82
Utilities	83	92	95	99
	1,815	2,040	2,486	2,603
Pooled Funds	4	4	5	5
Receivable from sale of investments and accrued investment income	11	11	12	12
Accounts payable and accrued liabilities	(30)	(30)	(124)	(124)
	(19)	(19)	(112)	(112)
	$ 1,819	**$ 2,044**	**$ 2,456**	**$ 2,573**

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and futures contracts totalling $1,794 (2008: $1,915).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule E

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

MARCH 31, 2009
(in millions)

	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 62	$ 62	$ 48	$ 48
Public equities (a) (b)				
Consumer discretionary	221	193	294	275
Consumer staples	244	213	218	220
Energy	230	201	223	216
Financials	460	392	563	521
Health care	228	198	206	182
Industrials	257	214	359	362
Information technology	149	125	166	153
Materials	155	143	234	240
Telecommunication services	192	169	198	197
Utilities	111	96	139	139
	2,247	1,944	2,600	2,505
Pooled funds	32	23	53	58
	2,279	1,967	2,653	2,563
Receivable from sale of investments and accrued investment income	42	42	39	39
Accounts payable and accrued liabilities	(51)	(51)	(48)	(48)
	(9)	(9)	(9)	(9)
	$ 2,332	**$ 2,020**	**$ 2,692**	**$ 2,602**

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and futures contracts totalling $610 (2008: $545)

b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Japan	$ 514	$ 438	$ 525	$ 480
United Kingdom	477	399	599	543
France	257	220	286	282
Germany	180	153	246	244
Switzerland	163	148	161	168
Australia	121	110	105	106
Spain	92	80	108	115
Netherlands	70	61	107	103
Italy	72	61	91	90
Hong Kong	44	41	65	62
Other	289	256	360	370
	$ 2,279	$ 1,967	$ 2,653	$ 2,563

SCHEDULE OF INVESTMENT RETURNS Schedule F
MARCH 31, 2009

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

Time-weighted rates of return (in percent)	One Year Return 2009	5 Year Compound Annualized Return	8 Year Compound Annualized Return
Overall	**(18.1)**	**2.6**	**3.2**
Policy Benchmark	***(14.0)***	***2.9***	***3.1***
Value added (lost) from active management	**(4.1)**	**(0.3)**	**0.1**
Short-term fixed income	**2.6**	**3.1**	**3.1**
DEX 91-day T-Bill Index	*2.4*	*3.2*	*3.2*
Value added (lost) from active management	0.2	(0.1)	(0.1)
Absolute return strategies	**(23.8)**	**(0.9)**	**n/a**
HFRX Global Hedged Index	*(21.7)*	*(0.6)*	*n/a*
Value lost from active management	(2.1)	(0.3)	n/a
Long-term fixed income	**(3.2)**	**3.9**	**5.7**
DEX Universe Bond Index	*4.9*	*5.2*	*6.4*
Value lost from active management	(8.1)	(1.3)	(0.7)
Real estate	**4.8**	**16.5**	**13.3**
IPD Large Institutional All Property Index	*1.6*	*12.2*	*10.7*
Value added from active management	3.2	4.3	2.6
Private income	**10.3**	**13.9**	**n/a**
Consumer Price Index (CPI) plus 6%	*7.4*	*7.9*	*n/a*
Value added from active management	2.9	6.0	n/a
Timberland Investments	**(7.4)**	**n/a**	**n/a**
CPI plus 4%	*5.4*	*n/a*	*n/a*
Value lost from active management	(12.8)	n/a	n/a
Canadian equities	**(33.1)**	**2.6**	**3.8**
S&P/TSX Composite Index	*(32.4)*	*2.8*	*4.0*
Value lost from active management	(0.7)	(0.2)	(0.2)
United States equities	**(30.4)**	**(7.6)**	**(6.6)**
S&P 1500 Index	*(23.9)*	*(5.3)*	*(5.3)*
Value lost from active management	(6.5)	(2.3)	(1.3)
Non-North American equities	**(37.0)**	**(2.8)**	**(2.5)**
MSCI EAFE Index	*(34.4)*	*(2.9)*	*(2.9)*
Value added (lost) from active management	(2.6)	0.1	0.4
Private equities	**(15.1)**	**6.5**	**n/a**
CPI plus 8%	*9.4*	*9.9*	*n/a*
Value lost from active management	(24.5)	(3.4)	n/a

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Scholarship Fund as at March 31, 2009 and the statements of operations and net assets and cash flows for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Financial Position

March 31, 2009

	($ thousands) 2009	2008
Assets		
Portfolio investments (Note 3)	$ 643,968	$ 816,002
Transfers receivable from Alberta Government departments	807	981
Receivable from sale of investments	-	1
	$ 644,775	**$ 816,984**
Liabilities		
Administration expense payable	$ 57	$ 45
Net Assets (Note 6)	644,718	816,939
	$ 644,775	**$ 816,984**

Statement of Operations and Net Assets

For the Year Ended March 31, 2009

	($ thousands) 2009 Budget	2009 Actual	2008 Actual
Investment (loss) income	$ 30,882	$ (137,235)	$ 40,330
Investment expenses (Note 8)	(2,355)	(2,529)	(2,165)
Net investment (loss) income (Note 7)	28,527	(139,764)	38,165
Transfers from the General Revenue Fund (Note 6b)	-	-	227,000
Transfers from Alberta Government departments	1,000	1,307	981
Other contributions	840	875	518
Scholarships	(38,112)	(34,639)	(25,940)
Change in Net Assets	**$ (7,745)**	(172,221)	240,724
Net Assets at beginning of year		816,939	576,215
Net Assets at end of year		**$ 644,718**	**$ 816,939**

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

Statement of Cash Flows

For the Year Ended March 31, 2009

	2009 ($ thousands)	2008 ($ thousands)
Operating transactions		
Net investment (loss) income	$ (139,764)	$ 38,165
Non-cash items included in net investment (loss) income	13,507	(3,686)
	(126,257)	34,479
Decrease (increase) in receivables	175	(40)
Increase in payables	12	26
Cash (applied to) provided by operating transactions	(126,070)	34,465
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	238,357	83,467
Purchase of investments	(81,652)	(320,317)
Cash provided by (applied to) investing transactions	156,705	(236,850)
Transfers		
Transfers from the General Revenue Fund	-	227,000
Transfers from Alberta Government departments	1,307	981
Other contributions	875	518
Transfers to Advanced Education for scholarships	(34,639)	(25,940)
Cash (applied to) provided by transfers	(32,457)	202,559
(Decrease) increase in cash	(1,822)	174
Cash at beginning of year	10,526	10,352
Cash at end of year	$ 8,704	$ 10,526
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 8,704	$ 10,526

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

Notes to the Financial Statements

March 31, 2009
($ 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 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 fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

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

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland 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.

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 realized 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 realized upon immediate sale, nor 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.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

i) 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) Mortgages and 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) 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.

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)		
	2009			2008		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,704	$ 8,704	1.4	$ 10,526	$ 10,526	1.3
Currency Alpha Pool (b)	1,034	1,112	0.2	979	1,086	0.1
Tactical Asset Allocation Pool (c)	451	450	0.1	1,338	1,206	0.1
	10,189	**10,266**	**1.7**	**12,843**	**12,818**	**1.5**
Absolute Return Strategies (d)	**19,127**	**18,672**	**3.0**	**25,848**	**24,380**	**3.0**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	137,691	130,920	21.2	204,603	201,746	24.9
Private Mortgage Pool (f)	29,485	29,652	4.8	27,924	28,750	3.5
Fixed Income Overlay Strategy Pool (g)	(15,346)	(15,427)	(2.5)	-	-	-
	151,830	**145,145**	**23.5**	**232,527**	**230,496**	**28.4**
Inflation Sensitive						
Real Estate (Schedule B)						
Private Real Estate Pool (h)	67,450	86,575	14.0	66,858	87,417	10.8
Foreign Private Real Estate Pool (i)	4,605	5,640	0.9	1,837	1,704	0.2
	72,055	**92,215**	**14.9**	**68,695**	**89,121**	**11.0**
Private Income (j)	**12,280**	**12,444**	**2.0**	**3,522**	**3,912**	**0.5**
Timberland (k)	**692**	**933**	**0.2**	**608**	**811**	**0.1**
Equities						
Canadian Equities (Schedule C)						
Canadian Structured Equity Pool (l)	34,454	27,094	4.4	45,873	41,437	5.1
Canadian Pooled Equity Fund (m)	5,612	4,352	0.7	52,991	51,305	6.3
Canadian Equity Enhanced Index Pool (n)	20,232	16,774	2.7	26,614	26,198	3.2
Canadian Large Cap Equity Pool (o)	19,033	12,608	2.0	20,930	18,279	2.3
Growing Equity Income Pool (p)	39,150	37,222	6.0	11,984	10,935	1.3
Canadian Multi-Cap Pool (q)	40,560	37,114	6.0	58,198	55,791	6.9
Canadian Equity Overlay Strategy Pool (g)	7,856	8,035	1.3	-	-	-
	166,897	**143,199**	**23.1**	**216,590**	**203,945**	**25.1**
United States Equities (Schedule D)						
US Structured Equity Pool (r)	48,315	54,003	8.7	71,725	74,601	9.2
Portable Alpha US Pool (s)	23,492	23,321	3.8	15,577	14,890	1.8
US Small/Mid Cap Equity Pool (t)	13,230	12,160	2.0	29,871	28,261	3.5
Growing Equity Income Pool (p)	892	675	0.1	3,576	2,947	0.4
US Overlay Strategy Pool (g)	1,486	1,464	0.2	-	-	-
	87,415	**91,623**	**14.8**	**120,749**	**120,699**	**14.9**
Non-North American Equities (Schedule E)						
EAFE Active Equity Pool (u)	78,992	61,338	9.9	98,475	90,076	11.1
EAFE Structured Equity Pool (v)	19,093	18,400	3.0	22,240	21,722	2.7
Emerging Markets Equity Pool (w)	3,322	2,159	0.3	6,104	5,372	0.7
EAFE Equity Overlay Strategy Pool (g)	11,678	11,678	1.9	-	-	-
	113,085	**93,575**	**15.1**	**126,819**	**117,170**	**14.5**
Private Equities (j)	**10,398**	**10,318**	**1.7**	**7,801**	**8,204**	**1.0**
Total Investments (x)	**$ 643,968**	**$ 618,390**	**100.0**	**$ 816,002**	**$ 811,556**	**100.0**

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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. As at March 31, 2009, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2009	**2008**
Absolute Return Strategy Pool	2.0	2.3
Canadian Equity Enhanced Index Pool	5.9	6.3
Canadian Equity Overlay Strategy Pool	1.6	-
Canadian Large Cap Equity Pool	1.0	1.0
Canadian Multi-Cap Pool	3.7	3.8
Canadian Pooled Equity Fund	4.1	4.0
Canadian Structured Equity Pool	3.6	3.3
Currency Alpha Pool	1.4	1.4
EAFE Active Equity Pool	1.4	1.4
EAFE Equity Overlay Strategy Pool	1.6	-
EAFE Structured Equity Pool	2.2	1.8
Emerging Markets Pool	0.8	1.1
Fixed Income Overlay Strategy Pool	1.6	-
Foreign Private Equity Pool (02)	2.0	2.0
Foreign Private Real Estate Pool	4.0	1.9
Global Private Equity Pool (07)	0.9	0.9
Global Private Equity Pool (08)	4.4	4.4
Growing Equity Income Pool	4.1	4.0
Portable Alpha United States Equity Pool	3.6	4.1
Private Equity Pool	-	2.2
Private Equity Pool (02)	1.3	1.3
Private Income Pool	1.7	1.7
Private Income Pool 2	1.0	1.0
Private Income Pool 3	6.9	-
Private Mortgage Pool	1.5	1.6
Private Real Estate Pool	1.7	1.8
Tactical Asset Allocation Pool	4.1	4.1
Timberland Pool	0.9	0.9
US Overlay Strategy Overlay Pool	1.6	-
US Small/Mid Cap Equity Pool	1.2	1.2
US Structured Equity Pool	2.0	1.9
Universe Fixed Income Pool	1.7	2.1

a) 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 short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving 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. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

c) At March 31, 2009, the Tactical Asset Allocation Pool is comprised of cash.

Note 3 (continued)

d) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

e) The Universe 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 participants' 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 March 31, 2009, securities held by the Pool have an average effective market yield of 7.4% per annum (2008: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 6% (2008: 4%); 1 to 5 years: 36% (2008: 32%); 5 to 10 years: 28% (2008: 34%); 10 to 20 years: 16% (2008: 12%); and over 20 years: 14% (2008: 18%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.0%), specialty mortgages (1.9%) and provincial bond residuals (5.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2009, securities held by the Pool have an average effective market yield of 5.0% per annum (2008: 4.9% per annum) and the following term structure based on principal amount: under 1 year: 2% (2008: 3%); 1 to 5 years: 28% (2008: 12%); 5 to 10 years: 50% (2008: 61%); 10 to 20 years: 3% (2008: 5%); and over 20 years: 17% (2008: 19%).

g) 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, EAFE equities, major foreign currencies and styles and sectors. At March 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.

h) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. 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. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

i) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

j) The Private Income Pools invest in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%. Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP02, the Foreign Private Equity Pool 2002, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

k) The Timberland Pool provides high current income and long investment horizons. The timberland investment is 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%.

l) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. 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 foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

Note 3 (continued)

m) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

n) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

o) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

p) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

q) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (l)).

r) The U.S Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(l)).

s) The US Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded U.S. equities. The portfolios are actively managed by external managers with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

t) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

u) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

v) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (l)).

w) 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 Emerging Markets Free (MSCI EMF) Index over a four-year period.

Note 3 (continued)

x) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). 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.

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 2008-2009 fiscal year:

Equities	56%
Fixed income securities	25%
Inflation sensitive	15%
Cash and Absolute Return Strategies	4%

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, 2009:

($ thousands)

	Maturity			2009		2008	
	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	100%	-	-	$ 149,574	$ 722	$ 194,042	$ 733
Interest rate swap contracts	15%	47%	38%	59,199	(3,188)	124,020	(1,305)
Forward foreign exchange contracts	100%	-	-	79,792	(2,232)	89,896	(1,118)
Cross-currency interest rate swaps	36%	36%	28%	40,023	(1,626)	46,160	711
Credit default swap contracts	3%	56%	41%	213,547	(3,836)	222,957	(1,464)
Bond index swap contracts	100%	-	-	6,448	50	21,574	1,261
Futures contracts	100%	-	-	69,031	11,180	39,079	1,294
Swap option contracts	-	-	-	-	-	108,738	41
				$ 617,614	**$ 1,070**	**$ 846,466**	**$ 153**

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	
	2009	2008
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	15,805	13,623
Accumulated investment income	446,908	586,672
Accumulated scholarship payments (a)	(414,995)	(380,356)
Net Assets, at cost	**$ 644,718**	**$ 816,939**
Net Assets, at fair value	**$ 619,140**	**$ 812,493**

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 NET INVESTMENT (LOSS) INCOME

Investment income (loss) by asset class is as follows:

	($ thousands)	
	2009	2008
Real estate	$ 4,489	$ 9,241
Private income	821	379
Timberland	(108)	81
Private equities	(466)	864
Deposits and fixed-income securities	(3,348)	10,962
Absolute return strategies	(6,849)	2,657
Non-North American equities	(35,130)	1,689
United States equities	(41,803)	(14,246)
Canadian equities	(57,370)	26,538
Net investment (loss) income	**$ (139,764)**	**$ 38,165**

Investment income (loss) by type is as follows:

	($ thousands)	
	2009	2008
Interest, dividends, rental income and security lending income	$ 30,249	$ 31,420
Net realized (loss) gain on investments	(124,520)	20,011
Writedown of investments	(42,964)	(11,101)
Investment expenses (see Note 8)	(2,529)	(2,165)
Net investment (loss) income	**$ (139,764)**	**$ 38,165**

NOTE 8 INVESTMENT EXPENSES

Investment services are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation and part of the Ministry of Finance and Enterprise. 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)	
	2009	2008
Total Administrative expenses	$ 2,529	$ 2,165
Expenses as a percentage of net assets at fair value	0.41%	0.27%

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:

	One Year Return	Five Year Compound Annualized Return	Eight Year Compound Annualized Return	Ten Year Compound Annualized Return
Time-weighted rates of return				
Overall actual market value gain (loss)	-20.2%	2.2%	2.6%	2.9%
Benchmark return (1)	-16.6%	2.7%	2.9%	2.8%
Value (lost) added from active management	-3.6%	-0.5%	-0.3%	0.1%

(1) The overall benchmark return for year ended March 31, 2009 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2008 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

MARCH 31, 2009

($ thousands)

	Fund's share			
	2009		**2008**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 6,012	$ 6,012	$ 2,694	$ 2,694
Fixed-income securities (a) (b)				
Corporate, public and private	121,600	113,506	155,881	151,394
Government of Canada, direct and guaranteed	5,895	6,925	45,487	46,529
Provincial, direct and guaranteed:				
Alberta	35	35	62	65
Other provinces	20,238	20,617	26,596	28,006
Municipal	9	9	11	12
	147,777	141,092	228,037	226,006
Receivable from sale of investments and accrued investment income	1,665	1,665	3,964	3,964
Accounts payable and accrued liabilities	(3,624)	(3,624)	(2,168)	(2,168)
	(1,959)	(1,959)	1,796	1,796
	$ 151,830	$ 145,145	$ 232,527	$ 230,496

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Government of Canada bonds has been reduced by the notional amount of Canada bond futures contracts totalling $18,156 (2008: $nil).

b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 6.98% per annum (2008: 4.98% per annum) and the following term structure based on principal amount:

	2009	**2008**
	%	%
under 1 year	6	4
1 to 5 years	37	29
5 to 10 years	24	38
10 to 20 years	16	11
over 20 years	17	18
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 516	$ 516	$ 121	$ 121
Real estate (a)				
Office	25,894	38,693	26,465	38,919
Retail	21,078	24,996	21,698	27,294
Industrial	13,386	13,780	12,055	12,954
Residential	2,894	4,908	3,324	4,934
	63,252	82,377	63,542	84,101
Foreign Private Equity Pool	4,605	5,640	1,837	1,704
Participation units	3,091	3,091	3,154	3,154
Accrued income and accounts receivable	591	591	41	41
	$ 72,055	$ 92,215	$ 68,695	$ 89,121

(a) The following is a summary of real estate investments by geographic location:

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 36,548	$ 41,872	$ 37,762	$ 45,161
Alberta	18,494	31,519	17,301	29,967
Quebec	7,076	7,199	7,292	7,166
British Columbia	1,134	1,787	1,187	1,807
	$ 63,252	$ 82,377	$ 63,542	$ 84,101

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 3,402	$ 3,402	$ 4,648	$ 4,648
Public equities (a) (b)				
Consumer discretionary	8,544	6,758	12,967	9,993
Consumer staples	6,770	5,824	5,810	4,632
Energy	41,674	36,104	53,826	53,834
Financials	45,428	38,194	63,189	55,285
Health Care	650	529	414	292
Industrials	10,609	8,461	11,907	10,673
Information technology	5,369	4,787	7,751	9,531
Materials	27,198	25,119	33,543	33,954
Telecommunication services	8,867	7,800	11,489	11,047
Utilities	2,819	2,141	2,004	1,718
	157,928	135,717	202,900	190,959
Pooled Funds	4,762	3,275	9,185	8,481
Receivable from sale of investments and accrued investment income	1,031	1,031	1,200	1,200
Accounts payable and accrued liabilities	(226)	(226)	(1,343)	(1,343)
	805	805	(143)	(143)
	$ 166,897	$ 143,199	$ 216,590	$ 203,945

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and futures contracts totalling $90,549 (2008: $71,651).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 873	$ 873	$ 3,453	$ 3,453
Public equities (a) (b)				
Consumer discretionary	7,841	8,236	11,957	11,537
Consumer staples	9,903	10,582	11,888	12,076
Energy	10,122	10,824	14,300	15,289
Financials	11,466	11,209	21,665	20,828
Health Care	13,029	13,899	14,058	14,091
Industrials	9,121	9,379	15,570	15,504
Information technology	15,239	16,386	19,127	19,000
Materials	3,338	3,422	5,048	5,256
Telecommunication services	3,088	3,280	3,753	3,797
Utilities	3,978	4,130	4,698	4,645
	87,125	91,347	122,064	122,023
Pooled Funds	211	197	242	233
	87,336	91,544	122,306	122,256
Receivable from sale of investments and accrued investment income	513	513	559	559
Accounts payable and accrued liabilities	(1,307)	(1,307)	(5,569)	(5,569)
	(794)	(794)	(5,010)	(5,010)
	$ 87,415	$ 91,623	$ 120,749	$ 120,699

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and futures contracts totalling $78,923 (2008: $88,715).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's (S&P) 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule E

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 2,835	$ 2,835	$ 2,153	$ 2,153
Public equities (a) (b)				
Consumer discretionary	10,780	8,938	13,797	12,309
Consumer staples	11,873	9,868	10,216	9,844
Energy	11,222	9,307	10,485	9,697
Financials	22,154	18,197	26,380	23,387
Health Care	11,091	9,179	9,711	8,165
Industrials	12,510	9,951	16,874	16,232
Information technology	7,274	5,793	7,828	6,891
Materials	7,533	6,666	10,954	10,744
Telecommunication services	9,346	7,792	9,355	8,883
Utilities	5,387	4,494	6,472	6,229
	109,170	90,185	122,072	112,381
Pooled Funds	1,579	1,054	2,938	2,973
	110,749	91,239	125,010	115,354
Receivable from sale of investments and accrued investment income	1,932	1,932	1,756	1,756
Accounts payable and accrued liabilities	(2,431)	(2,431)	(2,100)	(2,093)
	(499)	(499)	(344)	(337)
	$ 113,085	$ 93,575	$ 126,819	$ 117,170

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and futures contracts totalling $29,880 (2008: $23,628).

b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 23,241	$ 18,536	$ 28,188	$ 24,433
Japan	24,991	20,393	24,550	21,441
France	12,537	10,213	13,398	12,628
Germany	8,760	7,099	11,512	10,927
Switzerland	7,947	6,871	7,515	7,511
Netherlands	3,419	2,824	5,054	4,625
Spain	4,469	3,698	5,023	5,126
Australia	5,840	5,124	4,823	4,700
Italy	3,517	2,834	4,270	4,014
Hong Kong	2,159	1,891	3,079	2,829
Other	13,869	11,756	17,598	17,120
	$ 110,749	$ 91,239	$ 125,010	$ 115,354

SCHEDULE OF INVESTMENT RETURNS

Schedule F

MARCH 31, 2009

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

Time-weighted Rates of Return (in percent)	One Year Return 2009	5 Year Compound Annualized Return	8 Year Compound Annualized Return
Overall	**(20.2)**	**2.2**	**2.6**
Policy Benchmark	***(16.6)***	***2.7***	***2.8***
Value lost from active management	**(3.6)**	**(0.5)**	**(0.2)**
Short-term fixed Income	**3.0**	**3.5**	**3.4**
DEX 91-day T-Bill Index	*2.4*	*3.2*	*3.2*
Value added from active management	0.6	0.3	0.2
Absolute return strategies	**(23.8)**	**(0.9)**	**n/a**
HFRX Global Hedged Index	*(21.7)*	*(0.6)*	*n/a*
Value lost from active management	(2.1)	(0.3)	n/a
Long-term fixed income	**(3.8)**	**3.2**	**5.4**
DEX Universe Bond Index	*4.9*	*5.2*	*6.4*
Value lost from active management	(8.7)	(2.0)	(1.0)
Real estate	**4.8**	**16.5**	**13.3**
IPD Large Institutional All Property Index	*1.6*	*12.2*	*10.6*
Value added from active management	3.2	4.3	2.7
Private income	**9.8**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	*7.4*	*n/a*	*n/a*
Value added from active management	2.4	n/a	n/a
Timberland Investments	**(7.4)**	**n/a**	**n/a**
CPI plus 4%	*5.4*	*n/a*	*n/a*
Value lost from active management	(12.8)	n/a	n/a
Canadian equities	**(33.1)**	**2.8**	**3.6**
S&P/TSX Composite Index	*(32.1)*	*2.8*	*4.0*
Value added (lost) from active management	(1.0)	0.0	(0.4)
United States equities	**(30.2)**	**(7.6)**	**(6.6)**
S&P 500 Index	*(23.9)*	*(5.3)*	*(5.3)*
Value lost from active management	(6.3)	(2.3)	(1.3)
Non-North American equities	**(37.0)**	**(2.8)**	**(2.5)**
MSCI EAFE Index	*(34.4)*	*(2.9)*	*(2.9)*
Value added (lost) from active management	(2.6)	0.1	0.4
Private equities	**(9.1)**	**8.9**	**n/a**
CPI plus 8%	*9.4*	*9.9*	*n/a*
Value lost from active management	(18.5)	(1.0)	n/a

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

Year Ended March 31, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2009 and the statements of operations and net assets and cash flows for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Financial Position

March 31, 2009

	($ thousands) 2009	2008
Assets		
Portfolio investments (Note 3)	$ 657,620	$ 830,719
Receivable from sale of investments	-	2
	$ 657,620	$ 830,721
Liabilities		
Administration expense payable	$ 58	$ 41
Net Assets (Note 6)	657,562	830,680
	$ 657,620	$ 830,721

Statement of Operation and Net Assets

For the Year Ended March 31, 2009

	($ thousands) 2009 Budget	2009 Actual	2008 Actual
Investment (loss) income	$ 33,178	$ (139,752)	$ 31,531
Investment expense (Note 8)	(3,675)	(3,566)	(3,346)
Net investment (loss) income (Note 7)	29,503	(143,318)	28,185
Transfers to the Alberta Heritage Foundation for Science and Engineering Research (Note 6b)	(37,800)	(29,800)	(33,300)
Change in net assets	$ (8,297)	(173,118)	(5,115)
Net assets at beginning of year		830,680	835,795
Net assets at end of year		$ 657,562	$ 830,680

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

Statement of Cash Flows

For the Year Ended March 31, 2009

	($ thousands) 2009	2008
Operating transactions		
Net investment (loss) income	$ (143,318)	$ 28,185
Non-cash items included in net investment (loss) income	7,198	(4,418)
	(136,120)	23,767
Decrease in receivables	2	598
Increase (decrease) in payables	17	(295)
Cash (applied to) provided by operating transactions	(136,101)	24,070
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	243,128	113,858
Purchase of investments	(76,630)	(106,186)
Cash provided by investing transactions	166,498	7,672
Transfers		
Transfers to the Foundation	(29,800)	(33,300)
Cash applied to transfers	(29,800)	(33,300)
Increase (decrease) in cash	597	(1,558)
Cash at beginning of year	3,680	5,238
Cash at end of year	$ 4,277	$ 3,680
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 4,277	$ 3,680

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

Notes to the Financial Statements

March 31, 2009
(All dollar amounts in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Science and Engineering Research Endowment Fund ("the Fund") operates under the authority of the *Alberta Heritage Foundation for Science and Engineering Research Act ("the Act")*, Chapter A-22, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund has been managed with the objectives of providing an annual level of income for transfer to the Alberta Heritage Foundation for Science and Engineering while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

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

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland 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.

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 realized 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 period 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 realized upon immediate sale, nor 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.

Fair values of investments held either by the Fund or by pooled investment funds are determined as follows:

i) 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 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.

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

	2009 ($ thousands)			2008 ($ thousands)		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 4,277	$ 4,277	0.7	$ 3,680	$ 3,680	0.4
Currency Alpha Pool (b)	1,333	1,411	0.2	1,263	1,378	0.2
Tactical Asset Allocation Pool (c)	462	460	0.1	1,439	1,316	0.2
	6,072	**6,148**	**1.0**	**6,382**	**6,374**	**0.8**
Absolute Return Strategies (d)	**37,708**	**38,262**	**5.9**	**50,425**	**48,903**	**5.8**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	122,570	117,363	18.2	184,775	183,431	21.9
Private Mortgage Pool (f)	29,421	29,487	4.6	28,724	29,453	3.5
Fixed Income Overlay Strategy Pool (g)	(16,490)	(16,577)	(2.6)	-	-	-
	135,501	**130,273**	**20.2**	**213,499**	**212,884**	**25.4**
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (h)	66,710	91,265	14.1	67,129	93,963	11.2
Foreign Private Real Estate Pool (i)	4,843	5,768	0.9	3,635	3,373	0.4
	71,553	**97,033**	**15.0**	**70,764**	**97,336**	**11.6**
Private Income Pools (j)	**24,059**	**24,313**	**3.8**	**11,092**	**12,140**	**1.5**
Timberland (k)	**2,973**	**4,010**	**0.6**	**2,614**	**3,486**	**0.4**
Equities						
Canadian **(Schedule C)**						
Canadian Structured Equity Pool (l)	20,480	15,296	2.4	29,040	25,213	3.0
Canadian Pooled Equity Fund (m)	3,489	2,512	0.4	34,086	31,048	3.7
Canadian Equity Enhanced Index Pool (n)	11,378	9,963	1.5	14,585	15,025	1.8
Canadian Large Cap Equity Pool (o)	13,299	8,263	1.3	14,099	11,592	1.4
Growing Equity Income Pool (p)	22,343	21,664	3.3	6,777	6,550	0.8
Canadian Multi-Cap Pool (q)	22,140	20,517	3.2	34,096	32,977	3.9
Canadian Equity Overlay Strategy Pool (g)	8,442	8,634	1.3	-	-	-
	101,571	**86,849**	**13.4**	**132,683**	**122,405**	**14.6**
United States **(Schedule D)**						
US Structured Equity Pool (r)	63,168	69,390	10.8	93,618	95,938	11.5
US Small/Mid Cap Equity Pool (s)	15,758	14,541	2.3	19,555	18,755	2.2
Portable Alpha United States Equity Pool (t)	27,854	29,440	4.6	35,688	35,433	4.2
Growing Equity Income Pool (p)	509	393	0.1	2,019	1,765	0.2
US Overlay Strategy Pool (g)	1,597	1,573	0.2	-	-	-
	108,886	**115,337**	**18.0**	**150,880**	**151,891**	**18.1**
Non-North American **(Schedule E)**						
EAFE Active Equity Pool (u)	100,195	78,317	12.1	129,911	120,010	14.3
EAFE Structured Equity Pool (v)	26,798	25,149	3.9	34,559	33,439	4.0
Emerging Market Equity Pool (w)	3,276	2,288	0.4	5,971	5,569	0.7
EAFE Equity Overlay Strategy Pool (g)	12,549	12,549	1.9	-	-	-
	142,818	**118,303**	**18.3**	**170,441**	**159,018**	**19.0**
Private Equity Pools (j)	**26,479**	**24,549**	**3.8**	**21,939**	**23,139**	**2.8**
Total Investments (x)	**$ 657,620**	**$ 645,077**	**100.0**	**$ 830,719**	**$ 837,576**	**100.0**

Note 3 (continued)

The Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. 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. As at March 31, 2009, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2009	**2008**
Absolute Return Strategy Pool	4.1	4.6
Canadian Equity Enhanced Index Pool	3.5	3.6
Canadian Equity Overlay Strategy Pool	1.7	-
Canadian Large Cap Equity Pool	0.6	0.6
Canadian Multi-Cap Pool	2.1	2.3
Canadian Pooled Equity Fund	2.4	2.4
Canadian Structured Equity Pool	2.0	2.0
Currency Alpha Pool	1.8	1.8
EAFE Active Equity Pool	1.8	1.9
EAFE Equity Overlay Strategy Pool	1.7	-
EAFE Structured Equity Pool	3.0	2.8
Emerging Markets Equity Pool	0.8	1.2
Fixed Income Overlay Strategy Pool	1.7	-
Foreign Private Equity Pool (02)	3.5	3.5
Foreign Private Equity Pool (05)	4.4	4.4
Foreign Private Real Estate Pool	4.1	3.7
Global Private Equity Pool (07)	5.1	5.1
Global Private Equity Pool (08)	2.3	2.3
Growing Equity Income Pool	2.4	2.4
Portable Alpha United States Equity Pool	4.5	5.1
Private Equity Pool (02)	2.5	2.5
Private Equity Pool (04)	4.6	4.6
Private Income Pool	3.6	3.6
Private Income Pool 2	3.8	3.8
Private Income Pool 3	6.0	-
Private Mortgage Pool	1.5	1.6
Private Real Estate Pool	1.8	1.9
Tactical Asset Allocation Pool	4.2	4.5
Timberland Pool	3.9	3.9
US Overlay Strategy Overlay Pool	1.7	-
US Small/Mid Cap Equity Pool	1.4	1.4
US Structured Equity Pool	2.6	2.4
Universe Fixed Income Pool	1.6	1.9

a) 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 short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving 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. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

Note 3 (continued)

c) At March 31, 2009, the Tactical Asset Allocation Pool is comprised of cash.

d) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

e) The Universe 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 participants' 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 March 31, 2009, securities held by the Pool have an average effective market yield of 7.4% per annum (2008: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 6% (2008: 4%); 1 to 5 years: 36% (2008: 32%); 5 to 10 years: 28% (2008: 34%); 10 to 20 years: 16% (2008: 12%); and over 20 years: 14% (2008: 18%).

f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.0%), specialty mortgages (1.9%) and provincial bond residuals (5.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2009, securities held by the Pool have an average effective market yield of 5.0% per annum (2008: 4.9% per annum) and the following term structure based on principal amount: under 1 year: 2% (2008: 3%); 1 to 5 years: 28% (2008: 12%); 5 to 10 years: 50% (2008: 61%); 10 to 20 years: 3% (2008: 5%); and over 20 years: 17% (2008: 19%).

g) 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, EAFE equities, major foreign currencies and styles and sectors. At March 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.

h) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. 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. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

i) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

j) The Private Income Pools invest in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%. Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of Private Equity Pool 02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

k) The Timberland Pool provides high current income and long investment horizons. The timberland investment is 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%.

Note 3 (continued)

l) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. 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 foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

m) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

n) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

o) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

p) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

q) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (l)).

r) The U.S Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(l)).

s) The US Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded U.S. equities. The portfolios are actively managed by external managers with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

t) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

u) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

Note 3 (continued)

v) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (l)).

w) 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 Emerging Markets Free (MSCI EMF) Index over a four-year period.

x) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). 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.

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 2008-2009 fiscal year:

Equities	56.5%
Fixed income securities	21.5%
Inflation sensitive	15.0%
Cash and Absolute Return Strategies	7.0%

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.

Note 5 (continued)

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, 2009:

($ thousands)

	Maturity			2009		2008	
	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	100%	-	-	$ 159,502	$ 391	$ 196,717	$ 502
Interest rate swap contracts	15%	47%	38%	54,002	(2,952)	113,670	(1,263)
Forward foreign exchange contracts	100%	-	-	125,623	(4,432)	138,210	(2,444)
Cross-currency interest rate swaps	36%	36%	28%	43,805	(1,620)	49,244	40
Credit default swap contracts	3%	56%	41%	192,577	(3,523)	204,320	(1,380)
Bond index swap contracts	100%	-	-	5,781	44	20,651	1,286
Futures contracts	100%	-	-	53,567	7,952	34,997	1,247
Swap option contracts	-	-	-	-	-	98,867	37
				$ 634,857	$ (4,140)	$ 856,676	$ (1,975)

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 2009	2008
Transfers from the General Revenue Fund (a)	$ 721,430	$ 721,430
Accumulated investment income	71,218	214,536
Accumulated transfers to the Foundation (b)	(135,086)	(105,286)
Net Assets, at cost	$ 657,562	$ 830,680
Net Assets, at fair value	$ 645,019	$ 837,537

(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 8(1) of the *Alberta Heritage Foundation for Science and Engineering Research Act* (the Act), the Minister of Finance and Enterprise must, at the request of the Foundation, pay from the Endowment Fund to the Foundation, money that, in the opinion of the trustees, is required by the Foundation for the furtherance of its objectives. Section 8 of *the Act* limits annual payments from the Fund to the Foundation for 2004-2005 and subsequent fiscal years. Payments to the Foundation 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) 2009
Accumulated unused spending limit at March 31, 2008	$ 16,589
4.5% of average market value on March 31, 2006-08	36,681
Spending limit for the year ended March 31, 2009	53,270
Transfers to Foundation during 2008-09	(29,800)
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

NOTE 7 NET INVESTMENT INCOME (LOSS)

Investment income (loss) by asset class is as follows:

	($ thousands) 2009	2008
Real estate	$ 5,652	$ 10,709
Private income	2,200	930
Timberland	(466)	348
Private equities	(1,440)	875
Deposits and fixed-income securities	(3,061)	11,128
Absolute return strategies	(13,920)	5,246
Canadian equities	(34,045)	15,887
Non-North American equities	(45,458)	1,298
United States equities	(52,780)	(18,236)
Net investment (loss) income	**$ (143,318)**	**$ 28,185**

Investment income (loss) by type is as follows:

	($ thousands) 2009	2008
Interest, dividends, rental income and security lending income	$ 29,407	$ 32,390
Net realized (loss) gain on investments	(125,227)	11,788
Writedown of investments	(43,932)	(12,647)
Investment expenses (see Note 8)	(3,566)	(3,346)
Net investment (loss) income	**$ (143,318)**	**$ 28,185**

NOTE 8 INVESTMENT EXPENSES

Investment services are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation and part of the Ministry of Finance and Enterprise. 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) 2009	2008
Total Investment Expenses	$ 3,566	$ 3,346
Expenses as a percentage of net assets at fair value	0.55%	0.40%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (SCHEDULE F)

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

	One Year Return	Five Year Compound Annualized Return	Eight Year Compound Annualized Return
Time-weighted rates of return			
Overall actual market value gain (loss)	-19.7%	1.4%	2.5%
Benchmark return (1)	-15.8%	2.0%	2.7%
Value lost from active management	-3.9%	-0.6%	-0.2%

1) The overall benchmark return for year ended March 31, 2009 is a product of the weighted average policy sector weights and the sector benchmark returns.

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2009 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

MARCH 31, 2009

	Fund's share ($ thousands)			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 5,875	$ 5,875	$ 2,450	$ 2,450
Fixed income securities (a) (b)				
Corporate, public and private	111,214	104,495	144,039	140,768
Government of Canada, direct and guaranteed	1,914	2,974	41,072	42,305
Provincial, direct and guaranteed:				
Alberta	31	31	56	59
Other provinces	18,197	18,628	24,227	25,646
Municipal	8	8	10	11
	131,364	126,136	209,404	208,789
Receivable from sale of investments and accrued investment income	1,512	1,512	3,617	3,617
Accounts payable and accrued liabilities	(3,250)	(3,250)	(1,972)	(1,972)
	(1,738)	(1,738)	1,645	1,645
	$ 135,501	$ 130,273	$ 213,499	$ 212,884

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Government of Canada bonds has been reduced by the notional amount of Canada bond futures contracts totalling $19,509 (2008: $nil).

b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 6.94% per annum (2008: 4.98% per annum) and the following term structure based on principal amount:

	2009	2008
	%	%
under 1 year	6	4
1 to 5 years	38	29
5 to 10 years	23	38
10 to 20 years	16	11
over 20 years	17	18
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule B

MARCH 31, 2009

	($ thousands) Fund's share 2009 Cost	2009 Fair Value	2008 Cost	2008 Fair Value
Deposits and short-term securities	$ 544	$ 544	$ 130	$ 130
Real estate (a)				
Office	25,497	40,789	26,474	41,833
Retail	20,756	26,350	21,706	29,337
Industrial	13,181	14,526	12,059	13,924
Residential	2,850	5,174	3,325	5,304
	62,284	86,839	63,564	90,398
Foreign Private Equity Pool	4,843	5,768	3,635	3,373
Participation units	3,259	3,259	3,391	3,391
Accrued income and accounts receivable	623	623	44	44
	$ 71,553	$ 97,033	$ 70,764	$ 97,336

(a) The following is a summary of real estate investments by geographic location:

	($ thousands) Fund's share 2009 Cost	2009 Fair Value	2008 Cost	2008 Fair Value
Ontario	$ 35,987	$ 44,140	$ 37,774	$ 48,542
Alberta	18,212	33,227	17,308	32,211
Quebec	6,968	7,589	7,295	7,702
British Columbia	1,117	1,883	1,187	1,943
	$ 62,284	$ 86,839	$ 63,564	$ 90,398

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule C

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 3,142	$ 3,142	$ 2,812	$ 2,812
Public equities (a) (b)				
Consumer discretionary	5,334	4,091	8,120	6,046
Consumer staples	4,008	3,477	3,686	2,809
Energy	25,254	21,660	32,992	32,322
Financials	27,171	22,859	38,854	33,253
Health Care	404	314	271	179
Industrials	6,436	5,083	7,353	6,430
Information technology	3,234	2,859	4,765	5,726
Materials	16,371	15,018	20,580	20,376
Telecommunication services	5,362	4,684	7,057	6,654
Utilities	1,726	1,266	1,255	1,030
	95,300	81,311	124,933	114,825
Pooled Funds	2,678	1,945	5,033	4,863
Receivable from sale of investments and accrued investment income	587	587	723	723
Accounts payable and accrued liabilities	(136)	(136)	(818)	(818)
	451	451	(95)	(95)
	$ 101,571	$ 86,849	$ 132,683	$ 122,405

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and futures contracts totalling $54,296 (2008: $42,886).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule D

MARCH 31, 2009

	($ thousands)			
	Fund's share			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 992	$ 992	$ 4,429	$ 4,429
Public equities (a) (b)				
Consumer discretionary	9,816	10,401	14,496	14,223
Consumer staples	12,491	13,460	15,120	15,414
Energy	12,764	13,763	17,924	19,314
Financials	13,415	13,671	26,794	25,949
Health care	16,272	17,584	17,871	17,963
Industrials	11,391	11,828	19,478	19,527
Information technology	19,480	20,727	24,060	23,997
Materials	4,157	4,301	6,181	6,496
Telecommunication services	3,894	4,173	4,772	4,846
Utilities	4,972	5,210	5,875	5,863
	108,652	115,118	152,571	153,592
Pooled Funds	251	236	303	293
	108,903	115,354	152,874	153,885
Receivable from sale of investments and accrued investment income	651	651	716	716
Accounts payable and accrued liabilities	(1,660)	(1,660)	(7,139)	(7,139)
	(1,009)	(1,009)	(6,423)	(6,423)
	$ 108,886	$ 115,337	$ 150,880	$ 151,891

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and futures contracts totalling $100,676 (2008: $113,161).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule E

MARCH 31, 2009

	Fund's share ($ thousands)			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 3,224	$ 3,224	$ 2,859	$ 2,859
Public equities (a) (b)				
Consumer discretionary	13,701	11,370	18,711	16,862
Consumer staples	15,107	12,564	13,931	13,521
Energy	14,246	11,838	14,161	13,216
Financials	28,143	23,065	35,810	32,134
Health care	14,118	11,690	13,139	11,169
Industrials	15,907	12,664	22,860	22,163
Information technology	9,211	7,360	10,495	9,360
Materials	9,571	8,472	14,926	14,742
Telecommunication services	11,858	9,914	12,555	12,041
Utilities	6,865	5,715	8,851	8,573
	138,727	114,652	165,439	153,781
Emerging markets pooled funds	1,557	1,117	2,872	3,082
	140,284	115,769	168,311	156,863
Receivable from sale of investments and accrued investment income	2,462	2,462	2,294	2,294
Accounts payable and accrued liabilities	(3,152)	(3,152)	(3,023)	(2,998)
	(690)	(690)	(729)	(704)
	$ 142,818	$ 118,303	$ 170,441	$ 159,018

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and futures contracts totalling $37,890 (2008: $36,230).

b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share ($ thousands)			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 29,468	$ 23,543	$ 38,031	$ 33,248
Japan	31,842	25,974	33,479	29,522
France	15,964	13,012	18,270	17,343
Germany	11,159	9,043	15,687	14,994
Switzerland	10,128	8,751	10,309	10,351
Netherlands	4,350	3,600	6,823	6,298
Spain	5,694	4,711	6,868	7,041
Australia	7,454	6,525	6,714	6,564
Italy	4,480	3,609	5,845	5,531
Hong Kong	2,720	2,390	4,063	3,798
Other	17,025	14,611	22,222	22,173
	$ 140,284	$ 115,769	$ 168,311	$ 156,863

SCHEDULE OF INVESTMENT RETURNS

Schedule F

MARCH 31, 2009

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

Time-weighted Rates of Return (in percent)	**One Year Return 2009**	**5 Year Compound Annualized Return**	**8 Year Compound Annualized Return**
Overall	**(19.7)**	**1.4**	**2.5**
Policy Benchmark	***(15.8)***	***2.0***	***2.7***
Value lost from active management	**(3.9)**	**(0.6)**	**(0.2)**
Short-term fixed Income	**2.8**	**4.1**	**3.8**
DEX 91-day T-Bill Index	*2.4*	*3.2*	*3.2*
Value added from active management	0.4	0.9	0.6
Absolute return strategies	**(23.8)**	**(0.9)**	**n/a**
HFRX Global Hedged Index	*(21.7)*	*(0.6)*	*n/a*
Value lost from active management	(2.1)	(0.3)	n/a
Long-term fixed income	**(3.8)**	**3.3**	**5.4**
DEX Universe Bond Index	*4.9*	*5.2*	*6.4*
Value lost from active management	(8.7)	(1.9)	(1.0)
Real estate	**4.7**	**16.5**	**13.3**
IPD Large Institutional All Property Index	*1.6*	*12.2*	*10.6*
Value added from active management	3.1	4.3	2.7
Private income	**9.2**	**13.5**	**n/a**
Consumer Price Index (CPI) plus 6%	*7.4*	*7.9*	*n/a*
Value added from active management	1.8	5.6	n/a
Timberland Investments	**(7.4)**	**n/a**	**n/a**
CPI plus 4%	*5.4*	*n/a*	*n/a*
Value lost from active management	(12.8)	n/a	n/a
Canadian equities	**(33.2)**	**2.6**	**3.7**
S&P/TSX Composite Index	*(32.4)*	*2.8*	*4.0*
Value lost from active management	(0.8)	(0.2)	(0.3)
United States equities	**(30.3)**	**(7.5)**	**(6.5)**
S&P 1500 Index	*(23.9)*	*(5.3)*	*(5.3)*
Value lost from active management	(6.4)	(2.2)	(1.2)
Non-North American equities	**(36.8)**	**(2.8)**	**(2.5)**
MSCI EAFE Index	*(34.4)*	*(2.9)*	*(2.9)*
Value added (lost) from active management	(2.4)	0.1	0.4
Private equities	**(16.7)**	**3.2**	**n/a**
CPI plus 8%	*9.4*	*9.9*	*n/a*
Value lost from active management	(26.1)	(6.7)	n/a

ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2009

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheet of the Alberta Risk Management Fund as at March 31, 2009 and the statement of operations for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	($ thousands)	
	2009	**2008**
Assets		
Cash and cash equivalents (Note 3)	$ 33,354	$ 28,023
Receivable from Province of Alberta	73	98
Accrued recoveries (Note 4)	285	231
	$ 33,712	$ 28,352
Liabilities and net liabilities		
Liabilities		
Accounts payable (Note 5)	$ 468	$ 743
Liability for accrued claims (Note 6)	30,239	28,996
	30,707	29,739
Net assets (liabilities)	3,005	(1,387)
	$ 33,712	$ 28,352

The accompanying notes are part of these financial statements.

Statement of Operations

For the year ended March 31, 2009

	($ thousands)		
	2009		2008
	Budget	Actual	Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 11,510	$ 11,885	$ 10,735
Other entities	966	575	521
Subrogation and salvage	300	473	203
Interest	1,550	1,069	1,350
	14,326	14,002	12,809
Expenses			
Insurance claims	10,078	5,322	6,504
Insurance premiums to insurers	2,103	2,272	2,054
Administration	1,549	1,380	1,349
Other services	642	636	625
	14,372	9,610	10,532
Net revenue	$ (46)	4,392	2,277
Net liabilities at beginning of year		(1,387)	(3,664)
Net assets (liabilities) at end of year		$ 3,005	$ (1,387)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2009

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 $30.2 million (2008: $29.0 million) in these financial statements, is subject to measurement uncertainty. This is because the ultimate disposition of claims incurred prior to the financial statement date is subject to the outcome of events that have not yet occurred, and any estimate of future costs has inherent limitations due to management's limited ability to predict precisely the aggregate course of future events. Based on an actuarial sensitivity analysis, an estimate of claim liabilities at the high end of a reasonable range is $36.2 million as at March 31, 2009, or $6.0 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, 2009, securities held by the Fund have time-weighted return of 3.0% per annum (2008: 4.5% 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)	
	2009	**2008**
Payable to Department of Finance and Enterprise	$ 376	$ 475
Other	92	268
	$ 468	$ 743

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

	($ thousands)	
	2009	**2008**
Outstanding claims case reserves (a)	$ 14,536	$ 14,474
Incurred but not reported losses (b)	15,703	14,522
	$ 30,239	$ 28,996

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, 2009 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:

	2009	2008
Trend rate		
General liability	5%	5%
Automobile liability	5%	5%
Property		
Through 2004 - 05	5%	5%
Through 2005-06 to 2007-08	10%	10%
After 2007 - 08	5%	10%
Auto physical damage		
Through 2004 - 05	11%	10%
After 2004 - 05	11%	15%
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	$ 1.20
Automobile liability		
Loss per vehicle	$ 110	$ 120
Property		
Loss per $million property values	$ 160	$ 150
Auto physical damage		
Loss per vehicle	$ 190	$ 175
Crime		
Loss per class A and B employee	$ 45	$ 65

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, 2009:

Sensitivity Tests	Increase in Net Liabilities ($ million)
Increase the confidence level of the liability for accrued claims estimate from 50% to 90%	$ 6.0
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.05 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 20%, depending on coverage type	4.2
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors	2.2

NOTE 7 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2009 are as follows:

	($ thousands)
2009-10	$ 193
2010-11	132
2011-12	135
	$ 460

NOTE 8 CONTINGENT LIABILITES

At March 31, 2009, 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, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheet of the Provincial Judges and Masters in Chambers Reserve Fund Reserve as at March 31, 2009 and the statement of changes in net assets for the year 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 audit.

I conducted my audit 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, 2009 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Fred J. Dunn, FCA]
Auditor General

Edmonton, Alberta
June 4, 2009

Balance Sheet

As at March 31, 2009

	($ thousands)	
	2009	**2008**
Assets		
Investments (Note 3)	$ 54,639	$ 61,643
Receivable from the Province of Alberta	351	371
	54,990	62,014
Liabilities		
Liability for investment purchases	275	-
	54,715	62,014
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 6)	54,715	62,014
Net Assets	$ -	$ -

Statement of Changes in Net Assets

For the year ended March 31, 2009

	($ thousands)	
	2009	**2008**
Increase in assets		
Contributions from the Province of Alberta		
Current service	$ 4,405	$ 4,374
Unfunded liabilities	-	860
Investment loss (Note 7)		
Investment loss	(11,583)	(1,520)
Investment expenses	(121)	(106)
	(7,299)	3,608
(Decrease)/Increase in assets		
(Decrease)/Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(7,299)	3,608
(Decrease)/Increase in net assets	$ -	$ -
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2009
(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. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded in the financial statements at fair value.

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

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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.

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

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

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

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

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

f) LIABILITIES

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

As at March 31, 2009, 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 Reserve 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 Reserve 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 (Schedules A to E)

	($ thousands)					
	2009			2008		
	Fair Value			Fair Value		
Fixed Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$	3,951	7.2	$	4,445	7.2
Universe Fixed Income Pool (b)		17,926	32.8		19,945	32.4
Private Mortgage Pool (c)		3,117	5.7		2,733	4.4
Currency Alpha Pool (d)		35	0.1		34	0.1
Tactical Asset Allocation Pool		38	0.1		-	-
Fixed Income Overlay Strategy Pool (e)		(1,398)	(2.6)		99	0.1
		23,669	43.3		27,256	44.2
Canadian Equities (Schedule B)						
Canadian Multi-Cap Pool (f)		2,385	4.4		2,782	4.5
Canadian Pooled Equities Fund (g)		267	0.5		2,586	4.2
Canadian Structured Equity Pool (h)		1,705	3.1		2,128	3.5
Canadian Equity Enhanced Index Pool (i)		968	1.8		1,372	2.2
Canadian Large Cap Equity Pool (j)		651	1.2		913	1.5
Grow ing Equity Income Pool (k)		2,181	4.0		532	0.8
Canadian Equity Overlay Strategy Pool (e)		729	1.3		-	-
		8,886	16.3		10,313	16.7
United States Equities (Schedule C)						
U.S. Structured Equity Pool (l)		5,474	10.0		6,995	11.4
Portable Alpha US Pool (m)		2,277	4.2		2,157	3.5
US Small/Mid Cap Equity Pool (n)		973	1.8		1,124	1.8
Grow ing Equity Income Pool (k)		40	0.1		143	0.3
U.S. Overlay Strategy Pool (e)		133	0.2		-	-
		8,897	16.3		10,419	17.0
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (o)		6,085	11.1		7,860	12.7
EAFE Structured Equity Pooled (p)		1,689	3.1		1,969	3.2
Emerging Markets Equity Pool (q)		202	0.4		426	0.7
EAFE Overlay Strategy Pool (e)		1,057	1.9		-	-
		9,033	16.5		10,255	16.6
Real Estate Schedule (E)						
Private Real Estate Pool (r)		2,969	5.4		2,752	4.5
Private Income						
Private Income Pool (s)		1,185	2.2		648	1.0
		30,970	56.7		34,387	55.8
Total investments	$	54,639	100.0	$	61,643	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 high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

b) The Universe Fixed Income Pool is managed with the objective of providing competitive returns comparable to the total return of the DEX Bond Universe Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. 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 Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. 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) 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.

e) 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, EAFE equities, major foreign currencies and styles and sectors. At March 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.

f) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. . The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

h) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

i) The Canadian Equity Enhanced Index Pool consist of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

Note 3 (continued)

k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.

l) The US Structured Equity Pool is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

m) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 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. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

n) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. small/mid cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the U.S. Small/Mid Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

o) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

p) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The Pool is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

q) 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.

r) 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.

s) The Private Income Pool is 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.

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.

In order to earn the best possible return at an acceptable level of risk, the Board has established the following benchmark long-term policy asset mix for investments:

Fixed income securities	46.0%
Canadian equities	16.0%
U.S. equities	16.0%
Non-North American equities	16.0%
Real estate	4.0%
Private income	2.0%

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 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 interest rate 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)

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, 2009:

	%			($ thousands)			
	2009					2008	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value	Notional Amount	Fair Value
Equity index swap contracts	100	-	-	$ 13,146	$ 46	$ 14,008	$ 39
Cross-currency interest rate swap	35	39	26	4,066	(161)	3,933	25
Interest rate swap contracts	15	46	39	5,284	(261)	11,001	(96)
Credit default swap contracts	3	56	41	28,830	(456)	21,678	(137)
Bond index swap contracts	100	-	-	883	7	2,052	98
Futures contracts	100	-	-	4,978	765	3,050	101
Forward foreign exchange contracts	100	-	-	3,080	(58)	3,155	(36)
Swap option contracts	-	-	-	-	-	10,750	4
				$ 60,267	$ (118)	$ 69,627	$ (2)

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, 2009.

As at March 31, 2009, the Unregistered Plan reported an actuarial deficiency of $8.2 million (2008: deficiency of $1.7million), taking into account the amounts owing from the Reserve Fund.

NOTE 7 NET INVESTMENT INCOME (LOSS)

a) Net investment income (loss) is comprised of the following:

	($ thousands)	
	2009	**2008**
Investment income (loss)		
Net realized and unrealized loss on investments including those arising from derivative transactions	$ (14,116)	$ (3,923)
Interest income	1,705	1,770
Dividend income	657	501
Real estate income	142	112
Securities lending income	29	20
	(11,583)	(1,520)
Investment Expenses	(121)	(106)
	$ (11,704)	$ (1,626)

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

	($ thousands)	
	2009	**2008**
Fixed Income Securities	$ (703)	$ 935
Canadian Equities	(3,524)	248
Foreign Equities		
United States	(3,448)	(1,968)
Non-North American	(4,171)	(1,289)
Real Estate	134	404
Private income	8	44
	$ (11,704)	$ (1,626)

NOTE 8 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2009 presentation.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

Schedule A

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

	($ thousands)	
	Reserve Fund's Share	
	2009	**2008**
Deposits and Short-term securities	$ 4,723	$ 4,827
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed	1,789	4,620
Alberta, direct	5	6
Other provinces, direct and guaranteed	2,775	2,763
Municipal	1	1
Corporate, public and private	14,653	14,866
	19,223	22,256
Receivable from sale of investments and accrued investment income	223	395
Accounts payable and accrued liabilities	(500)	(222)
	(277)	173
	$ 23,669	$ 27,256

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in Government of Canada bonds includes the notional amount of Canada bond futures contracts totaling $1,645 (2008: $nil).

(b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 7.1% per annum (2008: 5.0% per annum) and the following term structure based on principal amount:

	%	
	2009	**2008**
under 1 year	6	4
1 to 5 years	36	29
6 to 10 years	26	38
11 to 20 years	16	11
over 20 years	16	18
	100	100

Schedule B

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

	($ thousands)	
	Reserve Fund's Share	
	2009	2008
Deposits and Short-term securities	$ 271	$ 234
Public equities (a) (b)		
Consumer discretionary	409	503
Consumer staples	354	234
Energy	2,235	2,720
Financials	2,360	2,790
Health care	33	15
Industrials	513	538
Information technology	297	483
Materials	1,560	1,716
Telecommunication services	482	557
Utilities	132	87
	8,375	9,643
Pooled investment fund	189	444
Receivable from sale of investments and accrued investment income	64	61
Accounts payable and accrued liabilities	(13)	(69)
	51	(8)
	$ 8,886	$ 10,313

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totaling $5,750 (2008: $3,619).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

	($ thousands)	
	Reserve Fund's Share	
	2009	**2008**
Deposits and Short-term securities	$ 79	$ 315
Public equities (a) (b)		
Consumer discretionary	798	975
Consumer staples	1,050	1,068
Energy	1,073	1,333
Financials	1,054	1,784
Health care	1,355	1,229
Industrials	905	1,334
Information technology	1,594	1,647
Materials	327	440
Telecommunication services	326	335
Utilities	399	399
	8,881	10,544
Pooled investment fund	16	18
Receivable from sale of investments and accrued investment income	50	51
Accounts payable and accrued liabilities	(129)	(509)
	(79)	(458)
	$ 8,897	$ 10,419

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in US public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totaling $7,902 (2008: $7,816).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

	($ thousands) Reserve Fund's Share	
	2009	2008
Deposits and Short-term securities	$ 259	$ 188
Public equities (a) (b)		
Consumer discretionary	864	1,081
Consumer staples	955	865
Energy	902	850
Financials	1,753	2,053
Health care	889	717
Industrials	962	1,425
Information technology	562	604
Materials	642	944
Telecommunications services	757	778
Utilities	430	548
	8,716	9,865
Emerging market pooled funds	99	236
	8,815	10,101
Receivable from sale of investments and accrued investment income	191	152
Accounts payable and accrued liabilities	(232)	(186)
	(41)	(34)
	$ 9,033	$ 10,255

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in non-North American public equities includes the notional amount of US equity index swap contracts and equity index futures contracts totaling $2,741 (2008: $2,140).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	($ thousands) Reserve Fund's Share	
	2009	2008
Japan	$ 1,969	$ 1,887
United Kingdom	1,791	2,140
France	989	1,110
Germany	686	961
Switzerland	663	661
Australia	493	415
Spain	357	451
Netherlands	275	406
Italy	273	353
Hong Kong	182	247
Other	1,137	1,470
	$ 8,815	$ 10,101

Schedule E

SCHEDULE OF INVESTMENTS IN REAL ESTATE

	($ thousands)	
	Fund's share	
	2009	2008
Deposits and Short-term securities	$ 18	$ 4
Real Estate (a)		
Office	1,327	1,225
Retail	857	859
Industrial	473	408
Residential	168	156
	2,825	2,648
Participation units	106	99
Accrued income and accounts receivable	20	1
	$ 2,969	$ 2,752

(a) The following is a summary of the Reserve Fund's investment in real estate by geographic location:

	($ thousands)	
	Fund's share	
	2009	2008
Ontario	$ 1,436	$ 1,422
Alberta	1,081	943
Quebec	247	226
British Columbia	61	57
	$ 2,825	$ 2,648

SCHEDULE OF INVESTMENT RETURNS

Schedule F

The Reserve Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Reserve Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized), net of expenses.

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

	One Year Return 2009	3 Year Compound Annualized Return
Time-weighted rates of return (in percent)		
Overall	**(16.8)**	**(3.8)**
Policy Benchmark	***(12.8)***	***(1.9)***
Value lost from active management	(4.0)	(1.9)
Short-term fixed Income	**3.0**	**3.9**
DEX 91-day T-Bill Index	*2.4*	*3.7*
Value added from active management	*0.6*	*0.2*
Long-term fixed income	**(3.7)**	**1.7**
DEX Bond Universe Index	*4.9*	*5.4*
Value lost from active management	*(8.6)*	*(3.7)*
Canadian equities	**(33.1)**	**(8.6)**
S&P/TSX Composite Index	*(32.4)*	*(7.8)*
Value lost from active management	*(0.7)*	*(0.8)*
United States equities	**(30.5)**	**(14.3)**
Standard & Poor's 500 Index	*(23.9)*	(11.0)
Value lost from active management	*(6.6)*	(3.3)
Non-North American equities	**(36.9)**	**(13.4)**
MSCI EAFE Index	*(34.4)*	*(12.3)*
Value lost from active management	*(2.5)*	*(1.1)*
Real Estate	**4.8**	**n/a**
IPD Large Institutional All Property Index(a)	*1.6*	*n/a*
Value added from active management	*3.2*	*n/a*
Private Income	**0.8**	**4.6**
Consumer Price Index (CPI) plus 6%	*7.4*	*6.2*
Value lost from active management	*(6.6)*	*(1.6)*

The current sector benchmark indices are as of March 31, 2009. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the balance sheet of the Supplementary Retirement Plan Reserve Fund as at March 31, 2009 and the statement of changes in net assets for the year 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 audit.

I conducted my audit 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, 2009 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	($ thousands) 2009	2008
Assets		
Investments (Note 3)	$ 25,792	$ 29,300
Receivable from sale of investments	150	100
Receivable from participating employers	232	198
	26,174	29,598
Liabilities		
Liability for investment purchases	(375)	(150)
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(25,799)	(29,448)
Net Assets	$ -	$ -

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

Statement of Changes in Net Assets

For year ended March 31, 2009

	($ thousands) 2009	2008
Net Investment (loss) (Note 6)		
Net investment (loss)	$ (6,985)	$ (1,129)
Investment expenses	(95)	(78)
	(7,080)	(1,207)
Contributions	3,431	2,555
Decrease (increase) in amounts owing to the Supplementary Retirement Plan for Public Service Managers	3,649	(1,348)
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, 2009

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

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

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. 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.

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) 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.

iii) 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.

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

Note 2 (continued)

The fair values of receivable from sale of investments, receivable from participating employers, liability for investment purchases and amounts owing to the Supplementary Retirement Plan for Public Service Managers 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.

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, 2009 was 11.4% (2008: 11.4%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensions 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.

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 Reserve 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.

Note 2 (continued)

While best estimates have been used in the valuation of the Reserve 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 (Schedules A to E)

	($ thousands)			
	2009		**2008**	
	Fair Value		**Fair Value**	
Fixed Income		**%**		**%**
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 417	1.6	$ 134	0.5
Universe Fixed Income Pool (b)	3,131	12.2	5,932	20.2
Private Mortgage Pool (c)	2,351	9.1	2,041	7.0
Currency Alpha Pool (d)	61	0.2	60	0.2
Tactical Asset Allocation Pool (e)	22	0.1	-	-
Fixed Income Overlay Strategy Pool (e)	(852)	(3.3)	58	0.2
	5,130	19.9	8,225	28.1
Equities				
Canadian Equities (Schedule B)				
Canadian Multi-Cap Pool (f)	1,512	5.9	1,680	5.7
Canadian Pooled Equities Fund (g)	174	0.7	1,559	5.3
Canadian Structured Equity Pool (h)	1,118	4.3	1,247	4.3
Canadian Equity Enhanced Index Pool (i)	618	2.4	744	2.6
Canadian Large Cap Equity Pool (j)	425	1.7	560	1.9
Growing Equity Income Pool (k)	1,480	5.7	347	1.2
Canadian Overlay Strategy Pool (e)	443	1.7	-	-
	5,770	22.4	6,137	21.0
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	3,633	14.1	4,081	13.9
Portable Asset US Equity Pool (m)	1,455	5.6	1,276	4.4
US Small/Mid Cap Equity Pool (n)	616	2.4	708	2.4
Growing Equity Income Pool (k)	27	0.1	94	0.3
US Overlay Strategy Pool (e)	81	0.3	-	-
	5,812	22.5	6,159	21.0
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (o)	3,703	14.4	4,517	15.4
EAFE Structured Equity Pool (p)	1,224	4.7	1,463	5.0
Emerging Markets Equity Pool (q)	125	0.5	246	0.8
EAFE Overlay Strategy Pool (e)	645	2.5	-	-
	5,697	22.1	6,226	21.2
Real Estate Schedule (E)				
Private Real Estate Pool (r)	2,188	8.5	1,908	6.5
Alternative Investments				
Private Income Pool (s)	791	3.0	393	1.4
Timberland Pool (t)	209	0.8	182	0.6
Global Private Equity Pool (u)	195	0.8	70	0.2
	1,195	4.6	645	2.2
Total equities	20,662	80.1	21,075	71.9
Total investments	25,792	100.0	$ 29,300	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 high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

b) The Universe Fixed Income Pool is managed with the objective of providing competitive returns comparable to the total return of the DEX Bond Universe Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. 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 Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. 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) 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.

e) The Overlay Strategy Pools provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2009 the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

f) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

h) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

i) The Canadian Equity Enhanced Index Pool consist of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.

Note 3 (continued)

l) The US Structured Equity Pool is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

m) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 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. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

n) The US Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US Small/Mid cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the US Small/Mid Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

o) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

p) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four- year period. The Pool is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

q) 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.

r) 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.

s) The Private Income Pool 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.

t) 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%.

u) The Global Private Equity Pool are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

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.

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

Fixed income securities	41.0%
Canadian equities	16.0%
U.S. equities	15.0%
Non-North American equities	15.0%
Real estate	5.0%
Private income	4.0%
Timberlands	2.0%
Private equities	2.0%

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 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)

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, 2009:

($ thousands)

	Maturity			2009		2008	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
	%						
Equity index swap contracts	100	-	-	$ 8,671	$ 31	$ 8,570	$ 29
Cross-currency interest rate swaps	42	41	17	2,152	(73)	2,043	1
Interest rate swap contracts	16	57	27	2,857	(168)	4,190	(56)
Credit default swap contracts	6	55	39	5,385	(132)	6,797	(49)
Bond index swap contracts	100	-	-	154	1	732	56
Futures contracts	100	-	-	3,172	493	1,431	53
Forward foreign exchange contracts	100	-	-	3,055	(47)	3,617	(28)
Swap option contracts	-	-	-	-	-	3,197	1
				$ 25,446	$ 105	$ 30,577	$ 7

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 LOSSES

Net investment income is comprised of the following:

($ thousands)

	2009	2008
Investment income (loss)		
Net realized and unrealized gains (loss) on investment including those arising from derivative transactions	$ (8,169)	$ (2,280)
Interest income	638	764
Dividend income	424	300
Real estate income	105	76
Security lending income	17	11
	(6,985)	(1,129)
Investment expenses	(95)	(78)
	$ (7,080)	$ (1,207)

Note 6 (continued)

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

	($ thousands)	
	2009	2008
Fixed income securities	$ (197)	$ 305
Canadian equities	(2,203)	133
Foreign equities		
United States	(2,176)	(1,156)
Non-North American	(2,592)	(814)
Real estate	97	287
Alternative investments		
Timberland	(16)	11
Private income	4	27
Private equities	3	-
	$ (7,080)	$ (1,207)

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

An actuarial valuation of the SRP was carried out as at December 31, 2005 by Aon Consulting Inc. and was then extrapolated to December 31, 2008.

As at December 31, 2008 the SRP reported an actuarial deficit of $7.1 million (2007: surplus $1.5 million), taking into account the amounts receivable from Reserve Fund.

NOTE 8 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 presentation.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands)	
	Reserve Fund's Share	
	2009	**2008**
Deposits and short-term securities	$ 735	$ 320
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed	-	1,380
Alberta, direct	1	2
Other provinces, direct and guaranteed	576	889
Corporate, public and private	3,860	5,580
	4,437	7,851
Receivable from sale of investments and accrued investment income	52	124
Accounts payable and accrued liabilities	(94)	(70)
	(42)	54
	$ 5,130	$ 8,225

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in Government of Canada bonds includes the notional amount of Canada bond futures contracts totaling $1,001 (2008: $nil).

(b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 6.4% per annum (2008: 5.0% per annum) and the following term structure based on principal amount:

	%	
	2009	**2008**
under 1 year	5	4
1 to 5 years	38	26
5 to 10 years	25	42
10 to 20 years	13	10
over 20 years	19	18
	100	**100**

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Reserve Fund's Share	
	2009	**2008**
Deposits and short-term securities	$ 167	$ 141
Public equities (a) (b)		
Consumer discretionary	266	303
Consumer staples	231	140
Energy	1,453	1,621
Financials	1,537	1,670
Health care	21	9
Industrials	335	322
Information technology	193	287
Materials	1,014	1,023
Telecommunication services	314	334
Utilities	85	51
	5,449	5,760
Pooled investment funds	121	241
Receivable from sale of investments and accrued investment income	42	36
Accounts payable and accrued liabilities	(9)	(41)
	33	(5)
	$ 5,770	$ 6,137

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $3,749 (2008: $2,157).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands)	
	Reserve Fund's Share	
	2009	**2008**
Deposits and short-term securities	$ 49	$ 186
Public equities (a) (b)		
Consumer discretionary	521	579
Consumer staples	688	627
Energy	702	785
Financials	688	1,055
Health care	885	725
Industrials	590	790
Information technology	1,044	973
Materials	213	262
Telecommunication services	213	197
Utilities	260	237
	5,804	6,230
Pooled investment funds	10	11
Receivable from sale of investments and accrued investment income	33	30
Accounts payable and accrued liabilities	(84)	(298)
	(51)	(268)
	$ 5,812	$ 6,159

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $5,152 (2008: $4,578).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Reserve Fund's Share	
	2009	**2008**
Deposits and short-term securities	$ 163	$ 108
Public equities (a) (b)		
Consumer discretionary	546	659
Consumer staples	603	528
Energy	568	516
Financials	1,111	1,272
Health care	560	435
Industrials	608	862
Information technology	353	365
Materials	408	580
Telecommunications services	475	467
Utilities	276	336
	5,508	6,020
Emerging market pooled funds	61	136
	5,569	6,156
Receivable from sale of investments and accrued investment income	117	85
Accounts payable and accrued liabilities	(152)	(123)
	(35)	(38)
	$ 5,697	$ 6,226

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Reserve Funds' effective net investment in non-North American public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $1,870 (2008: $1,580).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	($ thousands) Reserve Fund's Share	
	2009	**2008**
Japan	$ 1,247	$ 1,155
United Kingdom	1,132	1,305
France	624	676
Germany	434	584
Switzerland	420	405
Australia	314	261
Spain	226	275
Italy	173	217
Netherlands	172	243
Hong Kong	115	149
Other	712	886
	$ 5,569	$ 6,156

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands) Reserve Fund's Share	
	2009	**2008**
Deposits and short-term securities	$ 13	$ 3
Real estate (a)		
Office	979	849
Retail	631	595
Industrial	348	283
Residential	124	108
	2,082	1,835
Participation Units	78	69
Accrued income and accounts receivable	15	1
	$ 2,188	$ 1,908

(a) The following is a summary of the Reserve Fund's investment in real estate by geographic locations:

	($ thousands) Reserve Fund's Share	
	2009	**2008**
Ontario	$ 1,058	$ 986
Alberta	797	654
Quebec	182	156
British Columbia	45	39
	$ 2,082	$ 1,835

SCHEDULE OF INVESTMENT RETURNS

Schedule F

The Reserve Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Reserve Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

	One Year Return 2009	5 Year Compound Return
Time-weighted rates of return (in percent)		
Overall	**(17.7)**	**1.4**
Policy Benchmark	***(13.3)***	***2.5***
Value lost from active management	*(4.4)*	*(1.1)*
Short-term fixed income	**4.1**	**4.3**
DEX 91-day T-Bill Index	*2.4*	*3.2*
Value added from active management	*1.7*	*1.1*
Long-term fixed income	**(3.3)**	**3.6**
DEX Bond Universe Index	*4.4*	*5.2*
Value lost from active management	*(7.7)*	*(1.6)*
Canadian equities	**(33.2)**	**2.3**
S&P/TSX Composite Index	*(32.4)*	*2.8*
Value lost from active management	*(0.8)*	*(0.5)*
United States equities	**(30.5)**	**(7.9)**
Standard & Poor's 1500 Index	*(23.9)*	*(5.3)*
Value lost from active management	*(6.6)*	*(2.6)*
Non-North American equities	**(37.0)**	**(3.3)**
MSCI EAFE Index	*(34.4)*	*(2.9)*
Value lost from active management	*(2.6)*	*(0.4)*
Real Estate (a)	**4.7**	**n/a**
IPD Large Institutional All Property Index	*1.6*	n/a
Value added from active management	*3.1*	n/a
Private equity	**3.5**	**n/a**
Consumer Price Index (CPI) plus 8.0%	*9.4*	n/a
Value lost from active management	*(5.9)*	n/a
Private Income	**0.5**	**n/a**
Consumer Price Index (CPI) plus 6.0%	*7.4*	n/a
Value lost from active management	*(6.9)*	n/a
Timberland	**(7.4)**	**n/a**
Consumer Price Index (CPI) plus 4.0%	*5.4*	n/a
Value lost from active management	*(12.8)*	n/a

The current sector benchmark indices are as of March 31, 2009. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

Year Ended December 31, 2008

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholders of the Alberta Capital Finance Authority

I have audited the balance sheet of the Alberta Capital Finance Authority as at December 31, 2008 and the statements of net loss, comprehensive loss and accumulated deficit and cash flow for the year then ended. 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 audit.

I conducted my audit 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
February 25, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at December 31, 2008

	($ thousands) 2008	2007
Assets:		
Cash (Note 4)	$ 6,328	$ 16,272
Loans to local authorities (Note 5)	7,075,010	6,009,624
Derivatives in favourable position (Note7)	509,898	50,230
	$ 7,591,236	$ 6,076,126
Liabilities and Shareholders' Deficiency:		
Liabilities:		
Accounts payable	$ 870	$ 733
Debt (Note 6)	6,924,812	5,929,014
Derivatives in unfavourable position (Note 7)	708,692	64,489
	7,634,374	5,994,236
Commitments (Note 12)		
Shareholders' deficiency:		
Share capital (Note 9)		
Issued and fully paid:		
6,343 shares (2007 - 6,390 shares)	64	64
Accumulated (deficit) retained earnings	(43,202)	81,826
	(43,138)	81,890
	$ 7,591,236	$ 6,076,126

The accompanying notes are part of these financial statements

D.O. Lussier
Chair of the Board

T. S. Stroich, FCA
President

Statement of Net Loss, Comprehensive Loss and Accumulated Deficit

For the Year Ended December 31, 2008

	Budget (Note 13)	Actuals 2008	Actuals 2007
	($ thousands)		
Interest Income:			
Loans	$ 330,002	$ 293,823	$ 307,432
Amortization of loan discounts	1,085	-	-
Investments (Note 4)	3,000	1,807	4,359
	334,087	295,630	311,791
Interest Expense:			
Long-term debt	320,805	263,472	300,367
Short-term debt	-	13,016	1,396
Commission fees	5,100	-	4,200
Amortization of net discounts on debt	2,443	-	-
	328,348	276,488	305,963
Net interest income	5,739	19,142	5,828
Other Income:			
Loan prepayment fees	-	76	58
Net interest income and other income	5,739	19,218	5,886
Non-Interest Expense:			
Administration and office expenses (Note 10)	754	822	659
Income before unrealized gains (losses)	4,985	18,396	5,227
Unrealized gain (loss) on loans	-	113,101	(64,263)
Unrealized (loss) gain on debt	-	(78,437)	74,246
Unrealized (loss) on derivatives	-	(178,088)	(6,801)
Total unrealized (loss) gain	-	(143,424)	3,182
Net (loss) income and comprehensive (loss) income	4,985	(125,028)	8,409
Retained earnings, beginning of year	18,677	81,826	73,417
Accumulated (deficit) retained earnings, end of year	$ 23,662	$ (43,202)	$ 81,826

The accompanying notes are part of the financial statements.

Statement of Cash Flow

For the Year Ended December 31, 2008

	($ thousands) 2008	2007
Operating Activities:		
Interest received	$ 287,797	$ 310,252
Investment interest	1,807	4,359
Loan prepayment fees	76	58
Commission fees	-	(4,200)
Administration and office expenses	(684)	(647)
Interest paid	(270,250)	(295,019)
Cash flows from operating activities	18,746	14,803
Investing Activities:		
Loan repayments	432,514	505,056
New loans issued	(1,384,807)	(1,240,305)
Cash flows used in investing activities	(952,293)	(735,249)
Financing Activities:		
Debt issues	2,624,881	1,551,905
Debt redemptions	(1,701,278)	(835,987)
Cash flows from financing activities	923,603	715,918
Net decrease in cash	(9,944)	(4,528)
Cash, beginning of year	16,272	20,800
Cash, end of year	$ 6,328	$ 16,272

The accompanying notes are part of the financial statements.

Notes to the Financial Statements

December 31, 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 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. The premium of 12 basis points is added to these rates as it is expected that financial securities with irregular payments would require a higher rate if sold in the market. The premium was determined through analysis of premiums for amortizing bonds trading in the bond market.

Note 2 (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 and accrual 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 sheet 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 3 ACCOUNTING POLICY CHANGES

a) ADOPTED CHANGES TO ACCOUNTING POLICIES

Effective January 1, 2008, ACFA adopted Canadian Institute of Chartered Accountants (CICA), Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements. ACFA determined that the implementation of these new standards did not have any impact on ACFA's financial position or results of operations. The disclosures related to these sections are reported in Notes 4, 5, 6 and 7 of these financial statements.

Effective January 1, 2008, ACFA adopted CICA Section 1535 "Capital Disclosures". The Section establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies and processes for managing capital. ACFA's capital disclosures are reported in Note 8 of these financial statements.

Note 3 (continued)

b) FUTURE CHANGES TO ACCOUNTING POLICIES

The CICA has issued Emerging Issues Committee 173 "Credit Risk and the Fair Value of Financial Assets and Liabilities" (EIC-173) which will require ACFA to take into account its own as well as counterparty credit risk in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods and applies to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. ACFA is currently evaluating the impact of the adoption of EIC-173 on its financial statements.

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. Currently ACFA will be required to adopt these standards. The impact of the adoption of the IFRS on ACFA's financial reporting is not yet determinable.

NOTE 4 CASH

Cash is on deposit in the Consolidated Cash Investment Trust Fund of the Province of Alberta which is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. Credit risk is minimized as the portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. For the year ended December 31, 2008, securities held by the Fund have an average net return of 3.53% per annum (December 31, 2007 - 4.48% per annum).

The fair value of cash approximates its carrying value.

NOTE 5 LOANS TO LOCAL AUTHORITIES

	($ thousands) 2008	2007
Fair Value	$ 7,075,010	$ 6,009,624
Contractual principal	6,590,181	5,637,888
Unamortized discount	(567)	(1,652)
Accrued interest receivable	95,952	95,961
	$ 6,685,566	$ 5,732,197

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 $4,547.

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, 2008 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) 2008	2007
Fair Value	$ 6,924,812	$ 5,929,014
Contractual principal	6,610,928	5,678,476
Unamortized discount	(11,823)	(4,066)
Accrued interest payable	56,608	62,850
	$ 6,655,713	$ 5,737,260

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

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

Debt with a fair value of $319,967 (contractual principal - $309,259) (2007: fair value - $768,770; contractual principal - $762,513) 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
2009	$2,312,782
2010	212,000
2011	250,000
2012	500,000
2013	300,000
	$3,574,782

NOTE 7 DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps are used to manage exposure to the mismatch in fixed interest rates on certain loans and debt made after January 1, 2004.

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 Sheet. 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 $309,259 related to the step-up and accrual notes have the option which allows the counterparty to extend or call the debt 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, there will be no gain or loss to ACFA.

The notional amounts of interest rate swaps are summarized as follows:

As at December 31 *($ thousands)*

Maturities	**Within 1 Year**	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**Total**
Interest rate swaps - 2008	$ 6,478	$38,640	$284,786	$1,997,962	$4,874,361	$7,202,227
Interest rate swaps - 2007	$1,450,216	$14,154	$220,360	$1,061,787	$3,716,037	$6,462,554

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

($ thousands)

			Current Replacement Cost	
	Notional Outstanding	**Net Fair Value**	**Contracts in Favourable Position**	**Contracts in Unfavourable Position**
Interest rate swaps - 2008	$ 7,202,227	$ (198,794)	$ 509,898	$ (708,692)
Interest rate swaps - 2007	$ 6,462,554	$ (14,259)	$ 50,230	$ (64,489)

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

($ thousands)

	2008	**2007**
Accrued interest receivable	$10,499	$ 4,464
Accrued interest payable	$12,481	$ 0

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 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 $2,617 and $4,105 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 International Swaps and Derivatives Association Master Agreement, ACFA can in the event of a counterparty default, net its favourable and unfavourable positions with a counterparty doing business only with ACFA.

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.

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.

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:

			Number of Shares		
Class	**Restricted to**		**Authorized**	**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	880	8,800
C	Cities		750	585	5,850
D	Towns and villages		750	295	2,950
E	Educational authorities		500	83	830
		2008	7,500	6,343	$ 63,430
		2007	7,500	6,390	$ 63,900

During the year, six Class B and one Class D shares were issued and fifty-four Class E shares were cancelled.

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

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

	($ thousands)			
	2008		2007	
	Number of Individuals	Total	Number of Individuals	Total
Board/Audit Committee Chairs	2	$ 9	2	$ 8
Board/Audit Committee members	8	$ 23	8	$ 19

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, 2008 is principal of $17,513 (2007 - $24,247), upon which, interest of $831 (2007 - $959) has been recorded in interest income from loans.

ACFA has no employees. Included in administration and office expenses of $822 (2007 - $659) is the amount of $440 (2007 - $420) 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 surplus position. 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.

Note 11 (continued)

b) INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive debt. The following table summarizes the contractual principal amounts of ACFA's interest sensitive assets and liabilities, with the assumption that the step-up and accrual notes are redeemed at the first extendible date and all other debt at the maturity date, based on the earlier of repricing or principal repayments:

As at December 31	($ thousands)						
Maturities	**Within 1 Year**	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**2008 Total**	**2007 Total**
Assets							
Cash	$6,328	$0	$0	$0	$0	$6,328	$ 16,272
Accrued Interest Receivable	106,451	0	0	0	0	106,451	100,425
Loans to Local Authorities	605,836	456,570	1,256,957	1,690,659	2,580,159	6,590,181	5,637,888
Effective Rate	5.7%	5.4%	5.4%	5.2%	5.3%	5.4%	5.6%
Total	718,615	456,570	1,256,957	1,690,659	2,580,159	6,702,960	$ 5,754,585
Liabilities							
Accrued Interest Payable	$69,089	$0	$0	$0	$0	$69,089	$ 62,850
Debt	2,312,782	212,000	1,050,000	1,600,000	1,436,146	6,610,928	5,678,476
Effective Rate	6.7%	7.0%	7.4%	7.5%	5.5%	6.8%	5.5%
Total	2,381,871	212,000	1,050,000	1,600,000	1,436,146	6,680,017	$ 5,741,326
Cumulative Gap 2008	($1,663,256)	$244,570	$206,957	$90,659	$1,144,013	$22,943	$ 13,259
Cumulative Gap 2007	($576,377)	$232,883	$193,027	($340,368)	$504,094	$13,259	$ 6,635

Interest rate swaps have not been included in the above table.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate for both floating rate assets and liabilities at the balance sheet date. Floating rate assets at December 31, 2008 consist of cash on hand, accrued interest receivable and loans which have been swapped from fixed to floating. Floating rate debt at December 31, 2008 consists of accrued interest payable, debt which has been swapped from fixed to floating and debt due within one year.

The impact of a 50 basis points change with all other variables held constant throughout the year would have the following impact on interest income and interest expenses from assets and liabilities respectively:

Assets	$4,771,678 X .5% =	$23,858
Liabilities	$4,775,261 X .5% =	23,876
Loss		$(18)

Note 11 (continued)

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.

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:

2009	$50
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:

	2008	2007
Loan commitments as at December 31	$ 13,796	$ 11,000

NOTE 13 BUDGET

The 2008 budget was approved by the Board of Directors on January 16, 2008 and is unaudited. For purposes of budget preparation, financial instruments are reflected at amortized cost and fair values are not included.

NOTE 14 COMPARATIVE FIGURES

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

SCHEDULE TO THE FINANCIAL STATEMENT

SCHEDULE OF DEBT

Schedule 1

As at December 31, 2008

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Canada Pension Plan Investment Fund/ CPP Investment Board					
Oct 02, 2009		9.990	$291,414	$318,222	
Nov 01, 2009		9.620	32,457	35,294	
Dec 01, 2009		9.260	6,652	7,205	
Oct 01, 2020		6.280	222,367	265,256	
Jun 01, 2022		6.060	100,000	116,255	
Apr 05, 2023		5.890	50,000	57,620	
Dec 01, 2023		5.500	150,000	164,839	
Dec 03, 2024		5.180	78,000	82,786	
Nov 03, 2026		4.490	200,000	195,229	
Nov 03, 2031		4.500	125,396	120,698	
Nov 02, 2032		4.830	190,383	192,206	
Total			1,446,669	1,555,610	
Public					
Jan 05, 2009		1.740	150,000	149,968	
Jan 14, 2009		1.810	110,000	109,935	
Jan 29, 2009		1.900	150,000	149,815	
Feb 03, 2009		2.200	90,000	89,871	
Feb 12, 2009		2.110	110,000	109,801	
Feb 18, 2009		1.533	90,000	89,815	
Mar 17, 2009		2.070	50,000	49,845	
Mar 17, 2009		1.137	80,000	79,752	
Mar 24, 2009		0.898	105,000	104,648	
Mar 30, 2009		1.910	75,000	74,733	
Apr 07, 2009		1.493	100,000	99,608	
Apr 22, 2009		1.353	100,000	99,530	
May 28, 2009		1.765	125,000	124,159	
Jun 08, 2009		2.770	125,000	124,075	
Jun 15, 2009		3.260	125,000	124,020	
Dec 16, 2009		1.186	100,000	98,384	
Mar 01, 2010		4.550	50,000	52,755	
Aug 20, 2010		4.500	150,000	159,964	
Sep 01, 2011		5.700	200,000	222,387	
Dec 15, 2011		4.435	50,000	53,154	
Jun 01, 2012		5.850	500,000	557,401	
Jan 04, 2013	Jan 04, 2009 *	4.450	13,000	13,183	(i)

SCHEDULE OF DEBT

Schedule 1 (continued)

As at December 31, 2008

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	Fair Value	
Public					
Feb 13, 2013	Feb 13, 2009 *	4.000	10,000	10,283	(i)
Jun 03, 2013	Jun 03, 2009	3.350	18,000	17,919	(i)
Jun 13, 2013	Jun 13, 2009	4.000	10,000	10,177	(i)
Dec 02, 2013		5.000	300,000	328,140	
Jan 28, 2014	Jan 28, 2009 *	4.000	10,000	10,063	(i)
Apr 17, 2014	Apr 17, 2009	3.600	10,000	9,919	(i)
Jan 28, 2015	Jan 28, 2009 *	4.050	10,000	9,988	(i)
Jan 31, 2015	Jan 31, 2009 *	3.850	10,000	9,957	(i)
Jun 01, 2015		4.900	200,000	216,531	
Jun 15, 2015	Jun 15, 2009	4.050	17,000	17,098	(i)
Sep 15, 2015	Mar 15, 2009 *	4.240	10,000	11,147	(ii)
Jun 15, 2016		4.350	600,000	622,900	
Mar 15, 2017	Mar 15, 2009 *	4.715	16,259	15,828	(ii)
Jun 15, 2017		4.650	700,000	736,761	
Aug 15, 2017	Feb 15, 2009 *	4.150	35,000	34,663	(i)
Feb 12, 2018	Feb 12, 2009 *	4.100	10,000	9,831	(i)
Jun 01, 2018		5.150	100,000	108,628	
Nov 13, 2020	May 13, 2009	5.020	12,000	12,194	(ii)
Apr 18, 2022	Apr 18, 2010	5.000	12,000	12,510	(ii)
Jun 15, 2022	Jun 15, 2009	5.010	25,000	25,952	(ii)
Dec 01, 2023		5.100	20,000	21,116	
Jun 15, 2025	Jun 15, 2009	5.150	20,000	22,667	(ii)
Jul 06, 2025	Jan 06, 2009	5.020	16,000	17,746	(ii)
Dec 15, 2025		4.450	300,000	291,539	
Oct 11, 2030	Oct 11, 2009	5.160	15,000	15,888	(ii)
Dec 15, 2030	Jun 15, 2009	5.160	10,000	10,737	(ii)
Dec 15, 2030	Dec 15, 2009	5.410	10,000	11,131	(ii)
Dec 15, 2030	Jun 15, 2009	5.400	10,000	11,086	(ii)
Total			5,164,259	5,369,202	
Total debt 2008			$6,610,928	$6,924,812	
Total debt 2007			$5,678,476	$5,929,014	

(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.

(*) Subsequent to year end these extendible step-up notes were called on the first extendible date at the contractual principal amount.

ALBERTA INSURANCE COUNCIL

Financial Statements

Year Ended December 31, 2008

AUDITOR'S REPORT

To the Members of Alberta Insurance Council

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

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 Council as at December 31, 2008, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
April 17, 2009

Pricewaterhouse Coopers LLP
Chartered Accountants

Statement of Financial Position

As at December 31, 2008

	$ 2008	$ 2007 (Restated - Note 2(c))
ASSETS		
Current assets		
Cash (Note 3)	$ 5,875,588	$ 5,033,447
Accounts receivable	42,860	101,866
Prepaid expenses	82,080	60,224
	6,000,528	5,195,537
Property and equipment (Note 4)	736,105	800,322
	$ 6,736,633	$ 5,995,859
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 321,973	$ 270,559
Current portion of deferred tenant inducement (Note 5)	34,890	34,890
Deferred license and assessment fee revenue	1,447,974	1,284,327
	1,804,837	1,589,776
Deferred tenant inducement (Note 5)	121,748	156,638
	1,926,585	1,746,414
NET ASSETS		
Net assets		
Invested in property and equipment	736,105	800,322
Unrestricted	4,073,943	3,449,123
	4,810,048	4,249,445
	$ 6,736,633	$ 5,995,859

Approved by the Audit Committee

Stewart Douglas Mel Niebrugge

Statement of Changes in Net Assets

For The Year Ended December 31, 2008

	$				
	Invested in property and equipment	**Invested in examination development**	**Unrestricted**	**Total 2008**	**Total 2007**
Balance - Beginning of year					
As previously stated	$ 800,322	$ 40,219	$3,449,123	$4,289,664	$3,171,508
Adjustment for adoption of new standard (note 2(c))	-	(40,219)	-	(40,219)	(4,000)
Balance - Beginning of year restated	800,322	-	3,449,123	4,249,445	3,167,508
Excess of revenue over expenditures (2007 is restated) (note 2(c))	(224,521)	-	785,124	560,603	1,081,937
Investment in property and equipment	160,304	-	(160,304)	-	-
Balance - End of year	$ 736,105	$ -	$4,073,943	$4,810,048	$4,249,445

Statement of Operations

For The Year Ended December 31, 2008

	$		
	Budget 2008	**2008**	**2007**
	(Unaudited)		**(Restated - Note 2(c))**
Revenue			
License, assessment, examination and continuing education fees	$ 4,425,000	$ 4,392,918	$ 4,376,766
Interest and other	220,000	195,886	199,828
	4,645,000	4,588,804	4,576,594
Expenditures			
Salaries and benefits	2,500,000	2,201,515	1,918,226
Occupancy and premises	478,000	443,780	487,476
Councils, Boards and Committees (Note 6)	355,000	374,356	272,240
Communications	195,000	252,342	151,784
Amortization and depreciation	185,000	224,521	195,485
Professional fees	150,000	172,221	158,103
Office and administration	152,000	150,928	144,834
Travel	130,000	127,183	106,220
Software and computer	100,000	81,355	60,289
Total expenditures for the year	4,245,000	4,028,201	3,494,657

Statement of Cash Flows

For The Year Ended December 31, 2008

	$ 2008	$ 2007
Cash provided by (used in)		**(Restated -**
Operating activities		**Note 2(c))**
Excess of revenue over expenditures	$ 560,603	$ 1,081,937
Items not affecting cash		
Amortization of property and equipment	224,521	184,448
Amortization of examination and program development costs	-	11,037
Amortization of deferred tenant inducement	(34,890)	(34,890)
Loss on disposal of property and equipment	360	1,386
	750,594	1,243,918
Net changes in non-cash working capital items		
Decrease (increase) in accounts receivable	59,006	(74,816)
(Increase) decrease in prepaid expenses	(21,856)	6,957
Increase (decrease) in accounts payable and accrued liabilities	51,414	(7,641)
Increase in deferred license and assesment fee revenue	163,647	118,556
	1,002,805	1,286,974
Investing activities		
Purchase of property and equipment	(160,864)	(546,191)
Receipt of tenant inducements	-	226,418
Proceeds on sales of property and equipment	200	-
	(160,664)	(319,773)
Increase in cash	842,141	967,201
Cash - Beginning of year	5,033,447	4,066,246
Cash - End of year	$ 5,875,588	$ 5,033,447
Supplementary information		
Interest received	$ 200,530	$ 193,910

Notes to the Financial Statements

December 31, 2008

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter I-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.

Property and Equipment and Amortization

Property and equipment 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

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

On January 1, 2007, the Council adopted Section 3855 of the Canadian Institute of Chartered Accountants ("CICA") Handbook – *Financial Instruments – Recognition and Measurement*. It contains the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value.

Under Section 3855, the Council has made the following classifications:

i) Cash is classified as financial assets held for trading and measured at fair value. Gains and losses related to periodical evaluations are recorded in the statement of operations.

ii) Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective rate method.

iii) Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

On January 1, 2007, the Council also adopted Section 3861 – *Financial Instruments Disclosure and Presentation* and Section 3865 – *Hedges*.

The Council applies Section 3861 in place of the new standards CICA 3862 - *Financial Instruments – Disclosures* and CICA 3863 – *Financial Instruments – Presentation*, effective for financial years beginning on or after October 31, 2007.

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

Accounting changes

Effective January 1, 2007, the Council adopted the new CICA revised Handbook Section 1506, *Accounting Changes*. This new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements.

Changes in accounting policies

a) Capital disclosures
Effective January 1, 2008, the Council adopted CICA Handbook Section 1535, *Capital Disclosures* which establishes disclosure requirements concerning capital such as: qualitative information about the Council's objectives, policies and processes for managing capital; quantitative data about what the Council regards as capital; and weather the Council has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The disclosure requirements relating to this new standard are included in note 7.

b) Financial statements presentation
Effective January 1, 2008, the Council adopted the new recommendations of CICA amended Handbook Section 1400, *General Standards of Financial Statements Presentation*. The section provides revised guidance related to management's responsibility to asses and disclose the ability of an entity to continue as a going concern. The adoption of Section 1400 had no impact on the Council's presentation of financial statements.

c) Goodwill and intangible assets
Effective January 1, 2008, the Council early adopted the new CICA Handbook Section 3064, *Goodwill and Intangible Assets*, for the accounting of examination development costs. Section 3064, provides accounting guidance for the recognition of internally developed intangible assets. Previously, the Council capitalized expenditures for examination development as *Deferred Examination Development Costs*, and at December 31, 2007, $40,219 had been recorded. The Council believes examination development costs previously deferred no longer meets the recognition or measurement criteria required in Section 3064, and has adjusted the accounts in

Note 2 (continued)

accordance with the requirements of the standard.

The adoption of this section was done retroactively with prior period restatement as required by the transitional provision. The impact upon initial application was to decrease net assets as at January 1, 2008 by $40,219, increase professional fees for 2007 by $36,219 and decrease net assets as at January 1, 2007 by $4,000. Cash flow is not impacted by the change in accounting policy.

d) Recent accounting pronouncements issued but not yet adopted
The AcSB announced amendments to existing guidance which are relevant to non-for-profit organizations. These amendments are effective for years beginning on or after January 1, 2009 and impact the following guidance relevant to the Council:

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

The Council has not yet assessed the impact of adopting these new standards on the financial position or reported results.

NOTE 3 CASH

Included in cash is an amount of $5,422,009 (2007: $4,713,363) invested in the Consolidated Cash Investment Trust Fund ("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 PROPERTY AND EQUIPMENT

			$	
			2008	**2007**
	Cost	**Accumulated amortization**	**Net**	**Net**
Leasehold improvements	$ 614,669	$ 227,540	$ 387,129	$ 411,409
Furniture and office equipment	298,266	148,877	149,389	152,718
Computer equipment	279,943	220,755	59,188	71,324
Computer software	631,750	522,020	109,730	124,511
Telephone equipment	49,401	18,732	30,669	40,360
	$ 1,874,029	$ 1,137,924	$ 736,105	$ 800,322

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 it 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:

	2008 $	***2007*** $
Councils and Council Committees	$ 275,055	*$ 220,770*
Appeal Boards	56,492	*16,169*
Accreditation Committee	42,809	*35,301*
	$ 374,356	*$ 272,240*

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 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:

2009	$ 212,216
2010	$ 211,884
2011	$ 206,860
2012	$ 151,594
2013	$ 151,383
Thereafter	$ 125,625

Contingent Liability

The Council is currently involved in legal proceedings related to the termination of a former lease on their Calgary office space and $50,000 has been accrued for costs associated with this matter.

NOTE 9 FINANCIAL INSTRUMENTS

The Council's financial instruments comprise cash, accounts receivable and accounts payable and accrued liabilities. 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.

Schedule 1

Schedule of Salaries and Benefits

For the year ended December 31, 2008

PER DIEM PAYMENTS OF COUNCIL MEMBERS

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

	2008		2007	
	#	$	#	$
Councils [(a)]				
Chairs	8	220,209	10	62,419
Menbers	30	1,743,671	30	101,429
Total	38	$ 1,963,880	40	$ 163,848

a) This includes the Alberta Insurance Council, the Life Insurance , the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Accreditation Committee.

b) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of Fees received from Insurance licenses. This includes public members appointed by the lieutenant Governor in Council, as well as Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

SALARIES AND BENEFITS

		$				$
	FTE's	Salary[(c)]	Benefits[(d)]	2008 Total	FTE's	2007 Total
	#				#	
Chief Executive Officer	1	$ 203,590	$ 34,045	$ 237,635	1	$ 214,952
Chief Operating Officer	1	181,028	39,181	220,209	1	200,059
Other staff [(e)]	19	1,485,605	258,066	1,743,671	19	1,503,215
Total	21	$1,870,223	$ 331,292	$2,201,515	21	$1,918,226

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 $55,595 (2007: $34,011).

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 $76,938 (2007: $67,429).

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Shareholder of Alberta Investment Management Corporation

I have audited the balance sheet of the Alberta Investment Management Corporation as at March 31, 2009 and the statements of operations 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 audit.

I conducted my audit 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 March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
July 23, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	($ thousands) 2009	2008
Assets		
Current Assets		
Cash (Note 4)	$ 23,561	$ 12,898
Accounts receivable	12,324	3,989
Prepaid expenses	1,253	189
	37,138	17,076
Capital assets (Note 5)	7,254	3,937
	$ 44,392	$ 21,013
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 8,741	$ 2,302
Accrued vacation and benefits	1,868	1,659
Advance from the Province of Alberta (Note 7)	28,249	13,249
	38,858	17,210
Long-term employee benefits (Note 8)	925	-
Deferred lease inducement	962	156
	40,745	17,366
Shareholder's Equity (Note 9)		
Contributed surplus	3,647	3,647
	3,647	3,647
	$ 44,392	$ 21,013

Commitments (Note 16)

The accompanying notes are part of these financial statements.

Approved by the Board:

A. Charles Baillie
Board Chair

George Gosbee
Audit Committee Chair

Statement of Operations

For the year ended March 31, 2009

	($ thousands)		
	2009	**2009**	**2008**
	Budget (Note 17)	**Actual (12 months)**	**Actual (3 months)**
Revenue			
External investment management fees (Note 10)	$ -	$ 174,059	$ 33,930
Service revenue	48,907	39,771	6,997
Interest income	-	822	138
	48,907	214,652	41,065
Expenses			
External investment management fees (Note 10)	-	174,059	33,930
Salaries, wages and benefits	32,463	26,231	4,901
Contract and professional services	6,001	6,514	772
Administration	3,762	3,485	690
Amortization	1,259	1,559	460
Data services and subscriptions	2,313	1,175	28
Rent	1,859	1,083	168
Interest on advance	1,250	546	116
	48,907	214,652	41,065
Net income	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, 2009

	($ thousands)	
	2009	**2008**
	(12 months)	**(3 months)**
Operating activities		
Net income	$ -	$ -
Items not affecting cash		
Amortization	1,559	460
	1,559	460
Changes in operating accounts (Note 11)	(3,802)	(217)
	(2,243)	243
Investing activities		
Acquisition of capital assets	(2,279)	(750)
Financing activities		
Advance from the Province of Alberta	15,000	15,000
Repayment on advance from the Province of Alberta	-	(1,751)
Deferred lease inducement	185	156
	15,185	13,405
Increase in cash for the year	10,663	12,898
Cash at beginning of year	12,898	-
Cash at end of year	$ 23,561	$ 12,898
Supplementary information		
Interest paid during the period	$ 546	$ 116

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 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, and as a result the comparative period is for the 3 months ended March 31, 2008.

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

New Accounting Standards
On April 1, 2008, the Corporation adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Statements – Presentation.

Capital Disclosures
Section 1535 specifies the disclosure of (i) an entity's objectives, policies and procedures and process for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Additional note disclosure has been added to meet new requirements, see Note 13.

Financial Instruments – Disclosures and presentation
Sections 3862 and 3863 replaced Handbook Section 3861, Financial Instruments – Disclosure and Presentation. These new sections enhance existing disclosure and presentation of the nature and scope of the risks associated with financial instruments as well as the way these risks are managed. The adoption of these sections has had no impact on the recognition and measurement of financial instruments in these financial statements. Additional note disclosure has been added to meet new requirements, see Note 13.

Recent Accounting Pronouncements
Goodwill and Intangible Assets
On April 1, 2009, the Corporation will adopt the provisions of CICA Handbook Section 3064, Goodwill and Intangible Assets. This standard contains new recognition and measurement criteria for internally generated computer application software and separate presentation of intangible assets on the balance sheet. The adoption of this section will not have a significant impact on the Corporation's financial statements.

Note 3 (continued)

International Financial Reporting Standards
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. Currently, the Corporation will be required to adopt these standards. The impact of the adoption on the Corporation's financial reporting is not yet determinable.

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.

The Corporation provides a retention incentive to employees through a long-term incentive plan (LTIP) and a restricted fund unit plan (RFU). The LTIP plan began January 1, 2009. LTIP is accrued each year at an amount equal to one quarter of the estimated aggregate pay-out over the four year period. RFU is accrued over the vesting period. Estimated payments for years beyond the next fiscal year are recorded as a long-term liability.

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 costs for design, development, testing and implementation are capitalized when the related business systems are expected to be of continuing benefit 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

Note 3 (continued)

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) 2009	2008
Deposit in Consolidated Cash Investment Trust Fund	$ 23,382	$ 12,805
Cash in U.S. bank account	179	93
	$ 23,561	$ 12,898

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, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (2008: 4.5% per annum).

NOTE 5 CAPITAL ASSETS

	($ thousands) 2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 11,035	$ 8,012	$ 3,023	$ 3,937
Computer hardware and software under development	3,537	-	3,537	-
Leasehold improvements under construction	694	-	694	-
	$ 15,266	$ 8,012	$ 7,254	$ 3,937

Amortization expense charged for the year ended March 31, 2009 was $1,559 (2008: $460).

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	($ thousands)	
	2009	**2008**
Annual incentive plan[1]	$ 2,331	$ 718
Retiring allowance and employment agreement payout[2]	2,167	-
Other accounts payable and accrued liabilities	4,243	1,584
	$ 8,741	$ 2,302

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) The Corporation's Chief Investment Officer announced his retirement on March 31, 2009 and will be 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)	
	2009	**2008**
Beginning of year	$ 13,249	$ -
Net initial advance	-	15,000
Advance increases during the year	15,000	-
	28,249	15,000
Less: Transfer of vacation liability	-	(1,751)
	$ 28,249	$ 13,249

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, 2009, the Corporation is in compliance with the terms of its revolving demand facility.

NOTE 8 LONG-TERM EMPLOYEE BENEFITS

	($ thousands)	
	2009	**2008**
Unfunded net retirement obligation from SRP plan[1]	$ 566	$ -
Long-term incentive plan[2]	278	-
Restricted fund unit incentive plan[2]	81	-
	$ 925	$ -

1) The Corporation is planning to establish a new supplementary retirement plan in 2009 and will be withdrawing from the existing Supplementary Retirement Plan for Public Service Managers (SRP). Using actuarial values from 2006, a net obligation of $566 has been estimated and accrued. The actual net obligation could differ from this estimate.

Note 8 (continued)

2) The Corporation provides retention incentives to employees through a Long-Term Incentive Plan (LTIP) and a Restricted Fund Unit (RFU) plan. The LTIP is provided to senior management and other key employees of AIMCo. Amounts paid out under the plan are calculated based on the compound rates of return on investments and rates of return assessed relative to benchmarks over a 4-year period. Grants for each 4-year performance cycle are awarded as of January 1st, and individual amounts vary depending on levels of responsibility. The value of the award at maturity at the end of the 4 year period may vary between zero and three times the grant. In the majority of situations, to receive the payout the employee must be actively working for AIMCo as of the payment date. The LTIP accrual for the year ended March 31, 2009, is 1/16 of the total 2009 grant of $4,453 which is based on performance for the period January 1, 2009 to December 31, 2012. 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. Total RFU grants of $620 for the year ended March 31, 2009, are accrued over the vesting period, which varies based on the award.

The Corporation participates in three multi-employer public sector pension plans - the Management Employees Pension Plan, the Public Service Pension Plan, a Supplementary Retirement Plan for Public Service Managers, 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 these pension plans is equivalent to the annual contributions of $2,189 for the year ended March 31, 2009 (2008: $529).

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

NOTE 9 SHAREHOLDER'S EQUITY

a) SHARE CAPITAL

	($ thousands) 2009	2008
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

b) CONTRIBUTED SURPLUS

The Contributed Surplus of $3,647 (2008: $3,647) represents equity received by the Department of Finance and Enterprise in exchange for the transfer of the net book value of the capital assets to the Corporation on January 1, 2008.

NOTE 10 EXTERNAL INVESTMENT MANAGEMENT FEES

Revenue and expenses include external investment management fees of $174,059 (2008: $33,930) for 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.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts during the period. External investment management fees include significant estimates for management fees and performance/incentive based fees. These 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) 2009	2008
Increase in accounts receivable	$ (8,335)	$ (3,989)
Increase in prepaid expenses	(1,064)	(189)
Increase in accounts payable and accrued liabilities	4,463	2,302
Increase in long-term employee benefits	925	-
Increase in accrued vacation and benefits	209	1,659
	$ (3,802)	$ (217)

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, 2009 assets under its administration totaled approximately $69.0 billion (2008: $75.7 billion), at market value. These assets were administered on behalf of the following clients of the Corporation.

	($ thousands) 2009	2008
Pension plans	$ 22,953,797	$ 27,429,537
Ministry of Finance and Enterprise		
General revenue and entity investment funds	23,085,499	22,167,259
Endowment funds (including the Alberta Heritage Savings Trust Fund)	16,397,866	20,228,488
Insurance related funds	2,237,132	3,387,499
Other government ministry investment funds	4,293,262	2,499,357
	$ 68,967,556	$ 75,712,140

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, 2009 the balance outstanding against the facility is $15,631.

Note 12 (continued)

At March 31, 2009, investments administered by the Corporation were held in the following asset classes:

	($ thousands) 2009	2008
Fixed income		
Fixed income	$ 39,019,339	$ 47,271,349
Private mortgages	1,967,976	1,845,609
Inflation sensitive		
Real estate	5,239,624	5,036,148
Infrastructure and timber	1,717,835	1,137,220
Real return bonds and commodities	1,197,983	1,540,950
Equities		
Public equities and absolute return strategies	18,360,255	17,429,559
Private equity	1,358,713	1,304,613
Overlays	105,831	146,692
	$ 68,967,556	$ 75,712,140

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 a 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)	
	2009	2008
Revenues		
Service Revenue	$ 39,771	$ 6,997
Expenses		
Interest on Advance from Province of Alberta	$ 546	$ 116
Contracted Services (rent & other)	2,043	3
	$ 2,589	$ 119
Assets		
Due From	$ 12,324	$ 3,989
Liabilities		
Due To	$ 925	$ 259
Advance from Province of Alberta	28,249	13,249
	$ 29,174	$ 13,508

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)

	Base Salary(1)	Variable Pay(2)	Other Cash Benefits(3)	Other Non-Cash Benefits(4)	(12 months) Total	(3 months) Total
Chairman of the Board(5)	$ 80	$ -	$ -	$ -	$ 80	$ 45
Board Members(5)	347	-	-	-	347	147
Chief Executive Officer(6)	333	125	1,108	37	1,603	-
Chief Investment Officer(7)	470	66	2,167	103	2,806	193
Chief Operating Officer(8)	220	-	90	45	355	76
Chief Financial Officer(9)	179	-	-	34	213	-
Chief Risk Officer	221	84	-	51	356	113

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 AIMCo's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, statutory contributions, and health plan coverage.
5) The Board consists of ten independent members including the Chairman, whose salary is disclosed separately. The Deputy Minister of Finance and Enterprise is a Board member but receives no compensation from AIMCo.
6) The Chief Executive Officer started August 1, 2008. Included in Other Cash Benefits is a $1,000 signing bonus.
7) The Chief Investment Officer also served in the role of Acting Chief Executive Officer for the period April 1, 2008 through August 1, 2008 while recruitment was underway for the Chief Executive Officer position. The Chief Investment Officer announced his retirement on March 31, 2009 and will be eligible for a retiring allowance of $1,207 and an employment agreement payout of $960. The Chief Investment Officer will be eligible for payment of deferred long-term incentive compensation grants upon maturity as described in the table below.
8) Two incumbents occupied this position during the fiscal year. Amounts presented relate to both incumbents. Included in Other Cash Benefits is a $90 signing bonus.
9) Two incumbents occupied this position from June 1, 2008. Amounts presented relate to both incumbents.

Deferred Long-Term Incentive Compensation

($ thousands)

	2009 LTIP Grant	2009 RFU Grant	2009 Total	2008 Total
Chief Executive Officer(6)	$ 500	$ -	$ 500	$ -
Chief Investment Officer(7)	362	-	362	-
Chief Operating Officer(8)	225	100	325	-
Chief Financial Officer(9)	75	-	75	-
Chief Risk Officer	100	50	150	-

Note 15 (continued)

The Corporation provides retention incentives to employees through a Long-Term Incentive Plan (LTIP) and a Restricted Fund Unit (RFU) plan as described in Note 8. Amounts for Deferred Long-Term Incentive Compensation have not been included in the above Salaries and Benefits table.

NOTE 16 COMMITMENTS

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

	($ thousands)
2010	$ 2,483
2011	4,992
2012	4,657
2013	4,274
2014	3,695
Thereafter	20,463
Total	$ 40,564

NOTE 17 2008/2009 BUDGET

The Corporation's 2008/2009 budget was approved by the Treasury Board on April 22, 2008. The decision to disclose the external investment management fees of $174,059 (2008: $33,930) on the Statement of Operations was made subsequent to the budget being approved.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December 31, 2008

AUDITOR'S REPORT

To the Shareholder of Alberta Local Authorities Pension Plan Corporation

I have audited the balance sheet of the Alberta Local Authorities Pension Plan Corporation as at December 31, 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 audit.

I conducted my audit 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, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
March 27, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at December 31, 2008

	($ thousands) 2008	2007
Assets		
Cash	$ 57	$ 23
Accounts receivable	4	4
Due from LAPP (Note 5)	64	67
	$ 125	$ 94
Liabilities and Sharholders Equity		
Liabilities		
Accrued liabilities	$ 125	$ 94
Deferred revenue	-	-
	125	94
Shareholder's equity		
Share capital (Note 4)	-	-
	$ 125	$ 94

The accompanying notes are part of these financial statements.

Approved by the Board:

Grant Howell
Chair of the Board

Ron Liteplo
President & CEO

Statement of Income

For the year ended December 31, 2008

	($ thousands)		
	Budget 2008 (Note 10)	**Actual 2008**	**Actual 2007**
Revenue			
Service revenue (Note 5)	$ 2,543	$ 2,497	$ 2,107
Miscellaneous revenue	-	6	7
Total revenue	2,543	2,503	2,114
Operating costs			
Salaries and benefits	865	943	888
Professional fees	560	383	315
Communication expenses	432	317	230
Board costs	287	276	286
Actuarial services	225	404	241
General and administrative	174	180	154
Total operating costs	2,543	2,503	2,114
Net income for the year	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2008

	($ thousands)	
	2008	**2007**
Operating activities		
Net income	$ -	$ -
Changes in non-cash working capital		
Decrease in accounts receivable	-	18
Increase in accrued liabilities	31	43
Decrease in deferred revenue	-	(40)
Decrease in amount due from LAPP	3	(67)
Increase in cash for the year	34	(46)
Cash at beginning of year	23	69
Cash at end of year	$ 57	$ 23

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2008

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 Ac*t, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

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

	$	
	2008	**2007**
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)
2009	103
	$ 103

NOTE 8 SALARIES AND BENEFITS DISCLOSURE

($ thousands)

	2008				2007
	Base Salary [a]	Other cash Benefits	Other Non-cash Benefits [b]	Total	Total
Corporation Board Chair [c]	$ -	$ 29	$ -	$ 29	$ 25
Corporation Board Members (excluding Chair) [c]	-	127	-	127	113
President & Chief Executive Officer [d]	210	63	50	323	265
Vice-Presidents:					
Policy and Legal [d]	144	41	33	218	196

a) Base salary includes regular base pay.

b) 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.

c) 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.

d) Other cash benefits include incentive pay (for the years 2007 and 2008), lump sum payments, vacation payouts and car allowance honoraria.

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 $105 for the year ended December 31, 2008.

At December 31, 2008, the Management Employees Pension Plan reported a deficiency of $568,574 (2007: $84,341) and the Public Service Pension Plan reported a deficiency of $1,187,538 (2007: $92,070). At December 31, 2008, the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $7,111 (2007: a surplus of $1,510).

NOTE 10 APPROVAL OF 2008 BUDGET

The 2008 budget was approved by the Corporation's Board of Directors on September 21, 2007.

NOTE 11 FINANCIAL STATEMENT APPROVAL

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

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Financial Statements

Years Ended December 31, 2008 and 2007

AUDITOR'S REPORT

To the Shareholder of Alberta Pensions Administration Corporation

I have audited the balance sheet of the Alberta Pensions Administration Corporation as at December 31, 2008 and 2007 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, 2008 and 2007 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
March 31, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at December 31, 2008 and 2007

	2008	2007
	($ thousands)	
Assets		
Cash	$ 52	$ 49
Accounts receivable	62	13
Prepaid expenses	715	219
Due from pension pans	3,555	2,846
Property and equipment (Note 4)	3,469	3,433
	$ 7,853	$ 6,560
Liabilities and Shareholder's Equity		
Liabilities		
Accounts payable and accrued liabilities	2,983	1,872
Accrued salaries and benefits	1,162	977
Accrued vacation pay	239	278
Deferred capital contributions (Note 3)	3,469	3,433
	7,853	6,560
Shareholder's equity		
Share capital (Note 5)	-	-
	$ 7,853	$ 6,560

The accompanying notes are part of these financial statements

Approved by the Board:

Jack H. McMahon
Chair, APA Board of Directors

Douglas Hollands, BComm, CA
Chair Audit Committee

Statement of Income

For the years ended December 31, 2008 and 2007

($ thousands)

	2008		2007
	Budget (Note 17)	Actual	Actual
Operating expense			
Staff and related expense	$ 21,396	$ 18,791	$ 16,056
Other operating expense (Note 7)	5,515	5,603	3,234
Materials and supplies	2,058	2,697	2,148
Amortization	1,738	1,914	2,746
Total before plan specfic and employer specific services	30,707	29,005	24,184
Plan Specific (Note 8)	1,581	912	1,106
Employer specific services (Note 9)	-	17	-
Total operating expense	32,288	29,934	25,290
Cost recovery revenue (Note 6)	$ 32,288	$ 29,934	$ 25,290

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the years ended December 31, 2008 and 2007

	($ thousands)	
	2008	**2007**
Operating activities		
Operating items not affecting cash:		
Amortization	1,914	2,746
Capital contributions recognized (Note 3)	(1,914)	(2,746)
	-	-
Changes in non-cash working capital (Note 10)	3	(2)
	3	(2)
Investing activities		
Acquisition of property and equipment	(1,950)	(1,567)
Financing activities		
Decrease in deferred lease inducement	-	(17)
Capital contributions received	1,950	1,567
	1,950	1,550
Increase (decrease) in cash for the year	3	(19)
Cash at beginning of year	49	68
Cash at end of year	$ 52	$ 49

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

Notes to the Financial Statements

December 31, 2008 and 2007

NOTE 1 AUTHORITY

Alberta Pensions Administration Corporation 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.

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, and the *Financial Administration Act*, Chapter F-12, RSA 2000, is responsible for administering the following 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)
- Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP)
- Supplementary Retirement Plan for Public Service Managers (MSRP)
- 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 Pension Services Agreement with the Minister through to December 31, 2009. These services include the collection of contributions, payment of benefits and refunds, and other services specifically requested by pension plan boards and committees. In 2008, the Minister also approved the Corporation providing specific services, on a cost recovery basis, for some employers (Note 9).

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).

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods.

Note 3 (continued)

b) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The threshold for capitalizing new system development 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 property and equipment has been deemed substantially complete and ready for productive use.

c) DEFERRED CAPITAL CONTRIBUTIONS

Financing obtained from the public sector pension plan funds to acquire property and equipment is recorded as deferred capital contributions. These amounts are recognized as revenue on the same basis as the acquired property and equipment is amortized.

NOTE 4 PROPERTY AND EQUIPMENT

($ thousands)

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	4,086	2,603	1,483	618
Computer software	5,960	4,594	1,366	1,659
Leasehold Iimprovements	1,652	1,369	283	519
Furniture and equipment	1,162	977	185	266
Telephone system	195	43	152	-
APEX business system	$ 7,383	$ 7,383	-	$ 371
	$ 20,438	$ 16,969	$ 3,469	$ 3,433

NOTE 5 SHARE CAPITAL

	$	
	2008	2007
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

NOTE 6 COST RECOVERY REVENUE

The Corporation charged each pension plan with its respective 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.

	($ thousands) 2008	2007
LAPP	$ 18,637	$ 15,386
PSPP	8,075	7,027
MEPP	1,375	1,212
SFPP	1,020	934
MSRP	304	238
PSM(CM)PP	276	249
PJMC(R)PP	78	83
PJMC(U)PP	75	77
MLAPP	51	56
	29,891	25,262
Interest and other miscellaneous cost recoveries	26	28
Employer specific services (Note 9)	17	-
Cost recovery revenue	$ 29,934	$ 25,290

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

NOTE 7 OTHER OPERATING EXPENSE

	($ thousands) 2008	2007
Contract services	$ 3,860	$ 1,851
Data processing and maintenance	1,404	1,117
Miscellaneous	339	266
	$ 5,603	$ 3,234

NOTE 8 PLAN SPECIFIC

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

($ thousands)

	2008					2007
	Contract Services	Salaries and Benefits	Materials and Supplies	Board Remuneration	Total	Total
MEPP	$ 190	$ -	$ 114	$ 37	$ 341	$ 294
SFPP	155	-	85	33	273	290
PSPP	137	72	59	-	268	494
PSM(CM)PP	5	-	19	-	24	13
MSRP	4	-	-	-	4	4
PJMC(R)PP	2	-	-	-	2	6
MLAPP	-	-	-	-	-	3
PJMC(U)PP	-	-	-	-	-	2
Total	$ 493	$ 72	$ 277	$ 70	$ 912	$ 1,106

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

NOTE 9 EMPLOYER SPECIFIC SERVICES

In 2008, the Minister approved the Corporation administering post retirement benefits for certain employers who participate in the public sector pension plans. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

($ thousands)

	2008	2007
Government of Alberta	$ 17	$ -

NOTE 10 CHANGES IN NON-CASH WORKING CAPITAL

	($ thousands) 2008	2007
Increase in accounts receivable	$ (49)	$ (7)
Increase in prepaid expenses	(496)	(81)
Increase in due from pension plans	(709)	(570)
Increase in accounts payable and accrued liabilities	1,111	696
Increase in accrued salaries and benefits	185	36
Decrease in accrued vacation pay	(39)	(76)
	$ 3	$ (2)

NOTE 11 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.

NOTE 12 RELATED PARTY TRANSACTIONS

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

	($ thousands) 2008	2007
Service Alberta - Data processing and postage	$ 723	$ 875
Alberta Finance and Enterprise - Accounting, administrative and risk management	37	31
University of Alberta - Executive training	31	13
Alberta Infrastructure and Transportation - Parking rental	10	10
	$ 801	$ 929

The Corporation also provided services to the pension plans and pension plan boards and committees as disclosed in Notes 6 and 8.

NOTE 13 SALARIES AND BENEFITS DISCLOSURE

a) BOARD REMUNERATION

The Board Chair received remuneration of $42 (2007: $24). Five Directors received total remuneration of $118 (2007: $87). Two Directors, 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	Total Compensation
Monica Normington	2008	$ 218	$ 25	$ 43	$ 29	$ 315
President and Chief Executive Officer	2007	176	30	32	37	275
Ryan Barrack	2008	157	3	30	12	202
Vice President, Finance and Compliance (5)	2007	54	15	10	94	173
Lesley Bowering	2008	156	12	30	20	218
Vice President, External Relations (6)	2007	106	-	19	30	155
Brian Luterbach	2008	117	1	20	6	145
Vice President, Information Technology (7)	2007	63	10	11	113	197
Kevin Olineck	2008	162	19	31	11	223
Vice President, Pension Services	2007	149	15	27	18	209
Jeff Uhlich	2008	159	18	30	9	216
Vice President, Human Resources	2007	138	1	25	10	174
Vice President, Strategic Planning (8)	2008	80	20	15	24	139
	2007	152	15	27	15	209

(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 Employees 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 2007 are severance payments for positions that had turnover.

(5) Ryan Barrack has occupied the position since October 29, 2007. The predecessor occupied the position until March 26, 2007.

(6) The position was created on March 1, 2007.

(7) Brian Luterbach has occupied the position since August 25, 2008. The predecessors occupied the position for the period November 15, 2007 - May 31, 2008 and the period prior to May 11, 2007.

(8) The Vice President, Strategic Planning retired on August 25, 2008.

NOTE 14 DEFINED BENEFITS PLANS

The Corporation participates in two multi-employer 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 $1,495 for the year ended December 31, 2008 (2007: $1,256).

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of $84,341 (2006: $6,765) and the Public Service Pension Plan reported a deficiency of $92,070 (2006: surplus $153,024). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers had a surplus of $1,510 (2006: $3,698).

NOTE 15 COMMITMENTS

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

	($ thousands) Total Commitments
2009	$ 1,144
2010	1,729
2011	1,729
2012	1,729
2013	1,729
Thereafter	10,734
	$ 18,794

The Corporation has 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.

NOTE 16 CONTINGENT LIABILITES

In 2008, a statutory reporting issue was identified that may result in the Corporation incurring expenses to correct the issue. At this point, the resulting expenses, if any, cannot be determined.

NOTE 17 2008 BUDGET

The Corporation's 2008 budget was approved by the Board of Directors on November 29, 2007.

NOTE 18 COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform with the 2008 presentation.

NOTE 19 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA SECURITIES COMMISSION

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

I have audited the balance sheet of Alberta Securities Commission as at March 31, 2009 and the statements of income and retained earnings and cash flows for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 16, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	($ thousands) 2009	2008
ASSETS		
Current		
Cash (Note 4)	$ 8,188	$ 4,395
Funds held for others (Note 9)	9	148
Accounts receivable	22	78
Prepaid expenses	64	39
	8,283	4,660
Non-Current		
Restricted cash (Note 3)	190	238
Investments (Note 4)	28,826	34,671
Capital assets (Note 6)	2,305	2,938
Lease deposit and other	153	161
	31,474	38,008
Total Assets	$ 39,757	$ 42,668
LIABILITIES AND RETAINED EARNINGS		
Current		
Funds held for others (Note 9)	$ 9	$ 148
Accounts payable and accrued liabilities	2,400	2,074
Accrued vacation and benefits liabilities	353	346
Lease inducement (Note 7)	124	124
	2,886	2,692
Non-Current		
Lease inducement (Note 7)	124	247
Accrued benefit liability (Note 8)	3,316	2,888
Total Liabilities	6,326	5,827
Retained earnings (Note 3)	33,431	36,841
Total Liabilities and retained earnings	$ 39,757	$ 42,668

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

Statement of Income and Retained Earnings

For the year ended March 31, 2009

	2009 Budget (Note 12)	2009 Actual	2008 Actual
	($ thousands)		
Revenue			
Fees (Note 10)	$ 24,982	$ 24,921	$ 24,952
Investment (loss) Income (Note 5)	1,580	(3,234)	2,147
Settlement payments and cost recoveries (Note 10)	-	1,246	705
Conference fees	-	21	36
Administrative penalties revenue (Note 3)	300	153	468
Total revenue	26,862	23,107	28,308
Expense			
Salaries and benefits	19,259	18,017	16,769
Administration	3,456	2,125	2,517
Professional services	3,212	2,877	2,356
Premises	2,350	2,197	2,105
Amortization	1,900	1,085	1,066
Investor education (Note 3)	1,125	216	837
Total expenses	31,302	26,517	25,650
Budget contingency	3,170		
Net (loss) income	$ (7,610)	(3,410)	2,658
Opening retained earnings		36,841	34,183
Closing retained earnings (Note 3)		$ 33,431	$ 36,841

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

Statement of Cash Flows

For the year ended March 31, 2009

	($ thousands) 2009	2008
Operating transactions		
Fees and other	$ 24,898	$ 24,923
Settlement payments and cost recoveries	1,246	705
Payments to and on behalf of employees	(17,498)	(16,310)
Payments to suppliers for goods and services	(7,465)	(8,345)
Investment (loss) income	(3,234)	2,147
Administrative penalties	206	446
Cash (used in) from operating transactions	(1,847)	3,566
Capital transactions		
Proceeds on disposal of capital assets	-	4
Cash used to acquire capital assets	(255)	(1,021)
Cash used in capital transactions	(255)	(1,017)
Investing transactions		
Decrease in restricted cash	48	338
Decrease (increase) in investments	5,847	(2,526)
Cash received from (used in) investing transactions	5,895	(2,188)
Increase in cash	3,793	361
Opening cash	4,395	4,034
Closing cash	$ 8,188	$ 4,395

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

Notes to the Financial Statements

March 31, 2009
($ 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. 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) PORTFOLIO 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.

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 are included in investment income. 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 statement of income in the same period as the gains and losses of the security being hedged. As a result, 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.

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.

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, forward foreign exchange contracts, credit default swap contracts and swap option contracts, are recorded at fair value.

c) VALUATION OF INVESTMENTS

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

i) Public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. The value of derivative contracts is included in the fair value of the ASC's investment in the Canadian Dollar Public Bond Pool and certain equity funds (Note 4). The fair value of derivative contracts is determined at the reporting date.

d) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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 their short-term nature, the fair value of cash, funds held for others, accounts receivables, restricted cash, investments, accounts payables 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
Leasehold improvements	remaining lease term to March 2011
Leasehold improvements	over fifteen 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 (PSPP), 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 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

Note 2 (continued)

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.

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. Actual experience is consistent with these estimates.

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. Experience indicates these amounts are insignificant and amounted to $31 for the year ended at March 31, 2009 ($56 at March 31, 2008).

j) RESTRICTED CASH

The *Securities Act* (Alberta) restricts the use of revenues received by the ASC 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 $190 ($238 in F2008). This amount is represented by restricted cash, as described in Note 2(j).

The change in restricted cash is compromised of:

	($ thousands) 2009	2008
Administrative penalties	$ 1,903	$ 3,218
Less: provision for uncollectible amounts	(1,758)	(2,776)
Net realizable value	145	442
Interest income and other	8	26
Administrative penalty receipts	153	468
Plus: Education seminar fees	15	31
Less: Eligible education expenses	(216)	(837)
Restricted cash (decrease)	(48)	(338)
Restricted cash opening balance	238	576
Restricted cash closing balance	$ 190	$ 238

NOTE 4 CASH AND INVESTMENTS

a) SUMMARY

($ thousands)

	2009			2008		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	$ 8,188	$ 8,188		$ 4,395	$ 4,395	
Investments						
Deposit in the CCITF	$ 72	$ 72	0.3	$ 69	$ 69	0.2
Fixed-income securities	21,246	20,006	73.2	26,278	25,646	76.0
Equities	7,508	7,269	26.5	8,324	8,025	23.8
	$ 28,826	$ 27,347	100.0	$ 34,671	$ 33,740	100.0

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is administered by the Ministry of Finance and Enterprise 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, 2009, securities held by the CCITF have a time weighted return of 3.0% per annum (4.5% in F2008).

AIMCo, a provincial corporation responsible to the Minister of Finance and Enterprise, provides day-to-day investment services for the ASC.

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, 2009 have an average effective market yield of 7.4% per annum (5% in F2008), with maturities ranging from less than one year to over 20 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.

Note 4 (continued)

Equity investments include publicly traded Canadian large cap and market index participant equities including a small portion in United States equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

b) 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 Funds Commission 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.

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.

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 index in the future.

The following is a summary of ASC's proportionate share of the notional amount and fair value of swap contracts issued by pooled funds as at March 31, 2009.

($ thousands)

	2009					2008	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (i)	Notional Amount	Net Fair Value (i)
		%					
Equity index swap contracts	100	-	-	$ 2,316	$ 42	$ 1,653	$ 18
Cross-currency interest rate swaps	7	39	54	1,631	(110)	1,608	97
Interest rate swap contracts	13	32	55	2,909	(99)	10,916	(24)
Credit default swap contracts	2	57	41	31,536	(422)	26,533	(144)
Bond index swap contracts	100	-	-	985	8	2,103	23
Futures contracts	100	-	-	2,333	461	2,026	35
Forward foreign exchange contracts	100	-	-	533	(15)	301	(6)
Swap option contracts	-	-	-	-	-	13,823	5
				$ 42,243	$ (135)	$ 58,963	$ 4

Note 4 (continued)

i) Current credit exposure is represented by the replacement cost of all outstanding contracts in favourable position (positive fair value).

ii) The method of determining the fair value of derivative contracts is described in note 2 (c).

c) INVESTMENT RISK MANAGEMENT

Income and financial returns of the ASC are exposed to credit, market and interest rate risk.

In order to earn an optimal financial return at an acceptable level of risk, management of the ASC has established an investment policy, which is reviewed annually. Investment income risk is reduced through asset class allocation targets of 75% bonds and 25% equities with a small value of residual cash. AIMCo manages risk through diversification within each asset class, and quality and duration constraints on fixed income instruments.

NOTE 5 NET INVESTMENT INCOME

	($ thousands) 2009	2008
Net realized (loss) gain on investments including derivatives	$ (4,868)	$ 838
Interest	1,362	1,200
Dividends	276	116
Other	(4)	(7)
	$ (3,234)	$ 2,147

The ASC's investments declined in market value 11.7 % for the year ended March 31, 2009 (2.9 % gain in F2008). This performance compares to a benchmark loss of 4.3% in F2009 and benchmark gain of 5.7% in F2008.

NOTE 6 CAPITAL ASSETS

($ thousands)

	Computer equipment and software	Furniture and equipment	Leaseholds	2009 Total	2008 Total
Estimated Useful Life	3 years	10 years	Lease Duration		
Cost					
Beginning of year	$ 2,662	$ 947	$ 3,854	$ 7,463	$ 6,963
Additions	287	6	159	452	733
Disposals	-	(3)	-	(3)	(233)
	$ 2,949	$ 950	$ 4,013	$ 7,912	$ 7,463
Accumulated Amortization					
Beginning of year	$ 1,972	$ 445	$ 2,108	$ 4,525	$ 3,689
Amortization expense	419	77	589	1,085	1,070
Disposals	-	(3)	-	(3)	(234)
	$ 2,391	$ 519	$ 2,697	$ 5,607	$ 4,525
Net Book Value March 31, 2009	$ 558	$ 431	$ 1,316	$ 2,305	
Net Book Value March 31, 2008	$ 690	$ 502	$ 1,746		$ 2,938

NOTE 7 LEASE INDUCEMENTS

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

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability is comprised of:

	($ thousands)	
	2009	**2008**
Retirement Plan	$ 208	$ 211
Supplemental Pension Plan	3,184	2,744
Less: current portion	(76)	(67)
	$ 3,316	$ 2,888

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

	($ thousands)	
	2009	**2008**
Public Service Pension Plan	$ 469	$ 428
Registered Retirement Savings Plan	425	393
Retirement Plan	20	29
Supplemental Pension Plan	486	461
	$ 1,400	$ 1,311

a) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2008, the Public Service Pension Plan reported a deficiency of $1,188,000 and in 2007 a deficiency of $ 92,509.

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 not pre-unfunded and the benefits are paid to August 2017 as they come due ($23 in F2009, $23 in F2008) 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 ($122 effective January 1, 2009, and $117 effective January 1, 2008) 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% 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.

Note 8 (continued)

The Supplemental Pension Plan is not pre-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:

	($ thousands)	
Balance sheet at March 31	**2009**	**2008**
Accrued benefit and unfunded obligation	$ 3,192	$ 2,869
Unamortized transitional obligation	(93)	(85)
Unamortized actuarial gain (loss)	85	(40)
Accrued benefit liability	$ 3,184	$ 2,744
Accrued benefit obligation		
Accrued benefit obligation at beginning of the year	$ 2,869	$ 2,511
Service cost	298	283
Interest cost	170	136
Net actuarial gain plus benefits paid of $46 ($44 in F2008)	(145)	(61)
Accrued benefit obligation at end of the year	$ 3,192	$ 2,869

	($ thousands)	
Pension expense	**2009**	**2008**
The pension expense for the Supplemental Pension Plan		
Service cost	298	283
Interest cost	170	136
Amortization of transitional obligation	26	26
Recognized actuarial (gains) losses during the year	(8)	16
	$ 486	$ 461

The assumptions used in the current (2009) and prior (2008) 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.

	2009	**2008**
Discount rate, year end obligation	6.2%	5.4%
Discount rate, net benefit cost prior year	5.4%	5.4%
Rate of inflation	2.50%	2.50%
Salary increases	4.00%	4.00%
Remaining service life	5 years	6 years

NOTE 9 FUNDS HELD FOR OTHERS

The ASC holds, in a separate bank account, $9 ($148 in F2008) in cash for participants in the Market Integrity Computer Analysis (MICA) system upgrade project. The ASC's share of project expenses in 2009 was $16 ($28 in F2008). Funds are disbursed as payments are made for approved expenditures. The project is complete and there are no future commitments and the remaining cash balance will be returned to participants.

NOTE 10 FEES, SETTLEMENT RECEIPTS AND COST RECOVERIES

	($ thousands) 2009	2008
Distribution of securities	$ 11,126	$ 11,598
Registrations	9,025	8,512
Annual financial statements	4,470	4,284
Orders (Applications)	300	558
Total fees	$ 24,921	$ 24,952
Settlement agreements and cost recoveries	$ 1,941	$ 2,058
Less: provision for uncollectible amounts net of recoveries	(695)	(1,353)
Total settlement receipts and cost recoveries	$ 1,246	$ 705

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 associated primarily with the lease of premises to March 31, 2025 and rental of office equipment to 2010 total $64,366 ($7,191 in F2008). 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.

2009-10	$ 2,241
2010-11	3,377
2011-12	3,081
2012-13	3,122
2013-14	3,164
Thereafter	49,381
Total	$ 64,366

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.

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% 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 $35,188 at March 31, 2009 ($23,927 in F2008). This amount is held in trust by the Ontario Securities Commission. The principal CSA administrators, including the ASC, have agreed that surplus amounts

Note 11 (continued)

can only be used to offset any shortfall in revenues, develop or enhance the systems and reduce fees charged to users.

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 16, 2008.

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 $32 ($33 in F2008) in administration expense.

SCHEDULE OF SALARIES AND BENEFITS

Schedule A

For the Year Ended March 31, 2009

($ thousands)

	2009				2008
	Base Salary (1)	Cash Benefits (2)	Non-cash Benefits (3)	Total	Total
Chair, Securities Commission (4)	$ 488	$ 82	$ 128	$ 698	$ 660
Executive Director	308	52	101	461	422
Vice Chair, Securities Commission (4)	263	39	95	397	376
Vice Chair, Securities Commission (4)	263	39	68	370	350
Independent Members (5)	404	-	-	404	519

1) Base salary includes regular base pay and Independent Member compensation.

2) Cash benefits include bonuses and Chair and Executive Director's automobile allowances.

3) Employer's share of all employee benefits including, current and prior service cost for the unfunded supplemental pension plan for designated executives as described in note 8 (d) of the financial statement and summarized in the accompanying narrative.

4) The Chair and Vice Chairs are full time Commission Members.

5) The ten Independent Members compensation includes fees paid in dollars for governance responsibilities of $333,000 ($346,000 in F2008) and hearing and application panel participation of $71,000 ($173,000 in F2008). Independent Member fees include a $10,000 annual retainer, $2,500 for Committee membership, $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)

	2009			2008
	Current Service Costs	Prior Service and Other Costs	Total	Total
Chair, Securities Commission	$ 92	$ 8	$ 100	$ 95
Executive Director	38	33	$ 71	67
Vice Chair, Securities Commission	33	33	$ 66	63
Vice Chair, Securities Commission	32	12	$ 44	41

The accrued obligation for each of the four highly paid executives under the Supplemental Pension Plan is outlined in the following table

($ thousands)

	Accrued obligation 1-Apr-08	Changes in accrued obligation	Accrued obligation 31-Mar-09
Chair, Securities Commission	$ 240	$ 53	$ 293
Executive Director	465	131	$ 596
Vice Chair, Securities Commission	426	38	$ 464
Vice Chair, Securities Commission	165	41	$ 206

ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise:

I have audited the consolidated balance sheet of Alberta Treasury Branches as at March 31, 2009, and the consolidated statements of income, changes in equity and other comprehensive income, and cash flows for the year 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 19, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Consolidated Balance Sheet

For the year ended March 31, 2009

	($ thousands) 2009	2008
Assets		
Cash resources (Note 7)		
Cash	$ 353,724	$ 91,567
Interest-bearing deposits with financial institutions	2,516,489	1,928,230
	2,870,213	2,019,797
Securities (Note 8)	1,228,305	1,253,518
Loans (Notes 9 and 10)		
Residential mortgage	7,368,397	7,719,066
Business	8,958,493	7,347,110
Personal	4,926,582	4,089,104
Credit card	541,940	450,007
Allowance for credit losses	(193,177)	(161,770)
	21,602,235	19,443,517
Other		
Premises and equipment (Note 12)	286,141	208,875
Derivative financial instruments (Note 18)	258,694	109,250
Other assets (Note 13)	268,555	308,196
	813,390	626,321
	$ 26,514,143	$ 23,343,153
Liabilities and Equity		
Deposits (Note 14)		
Personal	$ 10,797,569	$ 9,757,840
Business and other	10,158,290	8,035,590
Wholesale	2,925,387	3,382,286
	23,881,246	21,175,716
Other Liabilities		
Securities sold under repurchase agreements	286,404	-
Derivative financial instruments (Note 18)	127,518	82,390
Other Liabilities (Note 15)	403,278	343,597
	817,200	425,987
Subordinated Debentures (Note 16)	57,013	72,998
Equity		
Retained earnings	1,649,753	1,643,341
Accumulated other comprehensive income (Note 22)	108,931	25,111
	1,758,684	1,668,452
	$ 26,514,143	$ 23,343,153

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

For the year ended March 31, 2009

	2009	2008	2007
	($ thousands)		
Interest Income			
Loans	$ 1,099,173	$ 1,155,845	$ 960,074
Interest-bearing deposits with financial institutions	60,828	74,836	46,615
Securities	34,986	71,883	71,593
	1,194,987	1,302,564	1,078,282
Interest Expense			
Deposits	544,808	639,981	503,143
Subordinated debentures	2,616	3,173	3,334
Securities sold under repurchase agreements	218	-	-
	547,642	643,154	506,477
Net Interest Income	647,345	659,410	571,805
Other income			
Service charges	69,748	69,891	68,241
Credit fees	11,240	10,627	29,738
Investor services	36,749	38,427	28,526
Card fees	44,942	35,764	27,919
Foreign exchange	10,043	11,763	8,625
Insurance	22,346	11,525	10,789
Sundry	208	5,465	4,047
Gains on derivative financial instruments, net	10,597	2,533	1,776
Securitization Income (Note 11)	53,809	-	-
	259,682	185,995	179,661
Operating Revenue before the undernoted	907,027	845,405	751,466
Provision for loss on asset-backed commercial paper (Note 8)	(224,816)	(253,133)	-
Total Operating Revenue	682,211	592,272	751,466
Provision for (Recovery of) Credit Losses (Note 10)	42,712	12,906	(5,211)
Non-interest Expenses			
Salaries and employee benefits (Notes 17 and 20)	333,028	297,404	258,192
Data processing	73,622	67,212	60,176
Premises and occupancy, including amortization	55,418	47,831	43,078
Marketing and supplies	29,760	28,496	19,432
Professional and consulting costs	33,320	29,027	26,816
Equipment and software, including amortization	33,897	22,171	20,275
Deposit guarantee fee	29,417	20,210	14,156
Communication	18,685	18,532	14,793
ATB agencies	8,492	9,339	8,255
Other	17,448	9,159	17,116
	633,087	549,381	482,289
Net Income	$ 6,412	$ 29,985	$ 274,388

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

Consolidated Statement of Changes in Equity and Other Comprehensive Income

For the year ended March 31, 2009

($ thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Equity as at March 31, 2008	$ 1,643,341	$ 25,111	$ 1,668,452
Net income for the year ended March 31, 2009	6,412	-	6,412
Other comprehensive income (loss) for the year ended March 31, 2009			
Change in unrealized gains and (losses) on available-for-sale securities and interest-bearing deposits with financial institutions, net of cash flow hedges	-	5,751	5,751
Reclassification to earnings in respect of available-for-sale securities and interest-bearing deposits with financial institutions	-	7,257	7,257
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	104,377	104,377
Reclassification to earnings of gains and (losses) on cash flow hedges	-	(33,565)	(33,565)
	-	83,820	83,820
Comprehensive income for the year ended March 31, 2009			90,232
Equity as at March 31, 2009	$ 1,649,753	$ 108,931	$ 1,758,684
Equity as at March 31, 2007	$ 1,623,383	$ -	$ 1,623,383
Transition adjustment on adoption of new financial instruments accounting standards effective April 1, 2007	(10,027)	3,461	(6,566)
Adjusted balance as at April 1, 2007	$ 1,613,356	$ 3,461	$ 1,616,817
Net income for the year ended March 31, 2008	29,985	-	29,985
Other comprehensive income (loss) for the year ended March 31, 2008			
Change in unrealized gains and (losses) on available-for-sale securities and interest-bearing deposits with financial institutions, net of cash flow hedges	-	(543)	(543)
Reclassification to earnings in respect of available-for-sale securities and interest-bearing deposits with financial institutions	-	(3)	(3)
Changes in gains and (losses) on derivative financial instruments designated as cash flow hedges	-	16,543	16,543
Reclassification to earnings of gains and (losses) on cash flow hedges	-	5,653	5,653
	-	21,650	21,650
Comprehensive income for the year ended March 31, 2008			51,635
Equity as at March 31, 2008	1,643,341	25,111	1,668,452

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

Consolidated Statement of Cash Flows

For the year ended March 31, 2009

	($ thousands) 2009	2008	2007
Cash Flows from Operating Activites			
Net Income	$ 6,412	$ 29,985	$ 274,388
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	42,712	12,906	(5,211)
Amortization	46,795	32,666	29,218
Net changes in accrued interest receivable and payable	42,112	(26,783)	2,217
Net changes in derivative Financial Instruments	(33,505)	17,653	6,595
Provision for loss on asset-backed commercial paper	224,816	253,133	-
Gains on Sale of securitized residential mortgage loans	(53,311)	-	-
Other items, net	112,749	40,913	(130,810)
Net cash provided by operating activities	388,780	360,473	176,397
Cash Flows from Financing Activites			
Net changes in deposits	2,712,857	2,939,760	2,382,530
Issuance of subordinated debentures	-	15,990	13,401
Repayment of subordinated debentures	(15,985)	(15,234)	(12,738)
Net changes in securities sold under repurchase agreements	286,404	-	-
Net cash provided by financing activities	2,983,276	2,940,516	2,383,193
Cash Flows from Investing Activites			
Net changes in interest-bearing deposits with financial institutions	(587,214)	(910,659)	(40,826)
Purchase of investment securities	(2,772,652)	(12,628,696)	(19,156,941)
Proceeds from Investment securities	2,583,889	12,806,956	18,853,564
Net change in loans, excluding securitization	(3,255,323)	(2,491,160)	(2,142,424)
Net proceeds from loan securitizations	1,045,462	-	-
Net purchases of premises and equipment	(124,061)	(63,980)	(72,300)
Net cash used in investing activites	(3,109,899)	(3,287,539)	(2,558,927)
Net Increse in Cash	262,157	13,450	663
Cash at beginning of year	91,567	78,117	77,454
Cash at End of Year	$ 353,724	$ 91,567	$ 78,117
Supplementary cash flow information:			
Amount of interest paid during the year	$ 549,229	$ 638,758	$ 483,563

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

Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2009
($ 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 (the ATB Act), Revised Statutes of Alberta, 2000, chapter A-37. Under the ATB Act, ATB was established as a provincial Crown corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council.

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, 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 inter-company 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; and
- 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.

Note 2 (continued)

Classification and Measurement of Financial Instruments

ATB classifies financial instruments as held for trading (HFT), held to maturity (HTM), available for sale (AFS) or loans and receivables for all financial assets, and as either held for trading (HFT) or other liabilities for all financial 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. Those financial instruments classified as HTM, loans and receivables, and other liabilities are valued at amortized cost using the effective-interest-rate method.

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 other income 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), including any foreign exchange component, being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not ordinarily recognized in income but are recognized in accumulated other comprehensive income (AOCI) until maturity or sale, when the cumulative gain or loss on disposal is transferred to the Consolidated Statement of Income as other income. In the event of an other-than-temporary impairment in fair value, the impairment in fair value of the 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, 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).

Effective Yield

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.

Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income includes net income and other comprehensive income. For ATB, other comprehensive income includes net unrealized gains and losses on securities and interest-bearing deposits with financial institutions classified as AFS and changes in fair value of the effective portion of cash flow hedging derivative financial instruments.

Note 2 (continued)

Amounts recognized in other comprehensive income will eventually be reclassified to the Consolidated Statement of Income and reflected in net income as gains or losses once securities and interest-bearing deposits with financial institutions classified as AFS mature or are sold, any existing other-than-temporary impairments are recognized, or as cash flow hedging derivative financial instruments become ineffective.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements are treated as collateralized borrowings. Interest expense is accrued and recorded on the Consolidated Income Statement.

Other

ATB recognizes investment transactions relating to its securities portfolio on a settlement date basis.

Other Significant Accounting Policies

Other significant accounting policies followed in preparing these consolidated financial statements are disclosed throughout the following notes, along with the related financial disclosures.

Comparative Amounts

Certain comparative amounts have been reclassified where necessary to conform to the presentation adopted in the current year.

NOTE 3 CHANGES IN ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments – Disclosures and Presentation

Effective April 1, 2008, ATB adopted the requirements of three new sections of the *Canadian Institute of Chartered Accountants (CICA) Handbook*, namely 1535, Capital Disclosures; 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 1535 requires ATB to disclose certain qualitative and quantitative information regarding objectives, policies, and processes for management of capital, as well as compliance with externally imposed capital requirements. Note 6 to the consolidated financial statements includes information related to this new standard.

Sections 3862 and 3863 replace section 3861, Financial Instruments – Disclosure and Presentation, and 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 5 and in a number of other notes to the consolidated financial statements (Notes 4, 8, 18, and 19).

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee issued EIC-173, “Credit risk and fair value of financial assets and financial liabilities.” This EIC states that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. ATB estimates that the impact of EIC-173 is not material, and is nevertheless continuing to improve its measurement models.

NOTE 4 CARRYING VALUE AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

Note 4 (continued)

The following tables summarize ATB's financial instrument classifications and provides their carrying values.

CARRYING VALUE

($ thousands)

	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 Financial institutions	1,221	2,515,268	-	-	-	-	2,516,489	(1)
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 agreements	-	-	-	-	(286,404)	-	(286,404)	(1)
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 approximates 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.

Note 4 (continued)

CARRYING VALUE

($ thousands)

	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	$ 91,567	$ -	$ -	$ -	$ -	$ -	$ 91,567	(1)
Interest-bearing deposits with financial institutions	65,696	1,862,534	-	-	-	-	1,928,230	(1)
Securities	37,684	1,180,351	-	35,483	-	-	1,253,518	(2)
Loans								
Residential mortgages	-	-	7,719,066	-	-	-	7,719,066	
Business	-	-	7,347,110	-	-	-	7,347,110	
Personal	-	-	4,089,104	-	-	-	4,089,104	
Credit Card	-	-	450,007	-	-	-	450,007	
Allowance for credit losses	-	-	(161,770)	-	-	-	(161,770)	
	-	-	19,443,517	-	-	-	19,443,517	(3)
Other								
Derivative financial instruments	78,510	-	-	-	-	30,740	109,250	
Other assets	-	-	287,370	-	-	-	287,370	
	78,510	-	287,370	-	-	30,740	396,620	(1)
Financial Liabilities								
Deposits								
Personal	-	-	-	-	(9,757,840)	-	(9,757,840)	
Business and other	-	-	-	-	(8,035,590)	-	(8,035,590)	
Wholesale	-	-	-	-	(3,382,286)	-	(3,382,286)	
	-	-	-	-	(21,175,716)	-	(21,175,716)	(4)
Other								
Derivative financial instruments	(76,598)	-	-	-	-	(5,792)	(82,390)	
Other liabilities	-	-	-	-	(338,818)	-	(338,818)	
	(76,598)	-	-	-	(338,818)	(5,792)	(421,208)	(1)
Subordinated debentures	-	-	-	-	(72,998)	-	(72,998)	(5)

(1) Fair value approximates carrying value.
(2) Fair value of securities estimated to be $1,253,547.
(3) Fair value of loans estimated to be $19,878,910.
(4) Fair value of deposits estimated to be $21,240,537.
(5) Fair value of subordinated debentures estimated to be $74,865.

The fair values are determined as at the balance sheet date using the valuation methods and assumptions described below. These fair values may change in subsequent reporting periods due to market conditions or other factors.

Note 4 (continued)

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. For those instruments with an available market price, fair value is established by reference to the last traded price prior to the balance sheet date. Some of ATB's financial instruments lack such an available trading market, and the associated fair value is based on valuation models or by reference to other similar products in an active market. Fair values determined using valuation models require the use of assumptions. These assumptions are primarily based on observable market information, but in limited cases there may be no observable market information on which to base these assumptions. As detailed in Note 8 to these statements, in determining the fair value of third-party-sponsored asset-backed commercial paper (ABCP) and certain bank-sponsored ABCP, ATB has made assumptions about the current market discount rate.

Financial Instruments Whose Book Value Approximates Fair Value

For items that are short term in nature, the estimated fair value is considered to be equal to their carrying value. These 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 determined using a valuation technique that makes maximum use of observable market data. (Refer to Note 8 for additional information on the fair value of non-bank and bank-sponsored ABCP.)

Derivative Instruments

Refer to Note 18 for methods used to determine the fair value of derivative instruments.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates automatically re-price to market. For fixed-rate loans, fair value is determined by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is determined 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 uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

Subordinated Debentures

The fair value of subordinated debentures is determined by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

NOTE 5 RISK MANAGEMENT

Through its various business activities, ATB is exposed to credit risk, liquidity risk, market risk, operational risk, and reputational risk. ATB employs a risk management framework to mitigate these risks.

Risk Management Framework

ATB Financial employs a three-tier risk governance framework that comprises the following:

Risk Management

The first tier of risk governance, risk management, is provided by the Board-appointed Risk Committee. The Board sets ATB's risk appetite and approves policies and frameworks covering risks with potential company-wide consequences and strategy for managing risk. The Board is supported by the CEO and members of the Corporate Management Committee, who have primary responsibility for understanding and identifying the risks generated by their business lines and support units and managing those risks. The overriding goal of the first tier is to drive responsibility for risk management down to the level of risk-generating activities and functions.

Note 5 (continued)

Risk Control

The second tier, risk control, is provided by the Risk Committee, which is supported by the Risk Management, Finance, and Legal departments. These departments provide technical support and advice to assist in identifying and managing risk. Their roles include formulating and implementing risk policies and frameworks, developing risk assessment and analysis methodologies, as well as risk approval, risk monitoring, risk reporting, and escalating risk issues relating to ATB's business lines and support units.

Risk Assurance

The third tier, risk assurance, provides independent objective assurance on the effectiveness of the management and control of risk across the entire organization. This is provided through the Risk Committee and the Audit Committee and supported by Internal Audit.

The key committees and roles and responsibilities of our risk management governance structure are outlined in the Risk Management section of the MD&A.

Credit Risk

Credit risk is the potential for financial loss in the event of the failure by a borrower or counterparty to honour financial or contractual obligations, including retail and commercial loans, guarantees, letters of credit, derivative contracts, securities, and interest-bearing deposits with financial institutions.

ATB maintains a "risk-managed" philosophy in respect to its business activities, including:

- Prudent lending policies and practices, and monitoring processes that provide reasonable assurance of ongoing compliance
- Participation in lending opportunities where management can demonstrate that it has the appropriate knowledge and skill set
- Management of a balance between risk, loan growth, and profits, striving to optimize loan growth within the boundaries of its risk appetite
- Accountability for risk within ATB

ATB manages credit exposure by:

- Managing both the credit risk inherent in the entire portfolio and the risk in individual credits or transactions
- Applying a conservative and disciplined approach to credit risk management through strategies, policies, and limits approved annually by the Risk Committee. Credit risk evaluation and related reporting are independent of operations, supporting the integrity of the monitoring and reporting processes
- Maintaining a diversified credit and investment portfolio. Though legislation restricts our lending operations to largely within the Alberta marketplace, we believe a diversified portfolio can be achieved by way of:
    - Policies and limits to ensure broad diversification across various types of credit risk
    - Policies that ensure the portfolio is not overly concentrated to any particular industry sector, single borrower, related borrower groups, loan type, or geographic region within Alberta
    - Managing an out-of-province syndicated loan exposure permitted under the ATB Regulation
- Using various internal and external credit-modelling techniques to supplement the risk analysis of our credit portfolios. The risk ratings assist in the approval process, the pricing of the loan facility, and the ongoing maintenance and evaluation of the non-consumer loan portfolio as a whole. Risk ratings are regularly assessed and updated
- Monitoring credit exposure on an ongoing basis in a manner commensurate with the related risk

Although collateral is not required in all credit exposures, and does not replace an assessment of a counterparty's ability to meet its obligations, it does serve as an effective risk mitigant. ATB has defined policies regarding collateral requirements. Generally, in lending arrangements collateral consists of accounts receivable, inventory, machinery and equipment, and real estate mortgages, as well as cash and marketable securities.

Note 5 (continued)

Exposures relative to derivatives are subject to specific credit risk mitigation measures. These include:

- Obtaining International Swaps and Derivatives Association, Inc. master agreements with counterparties. This agreement permits master netting of any credit exposure.
- Obtaining credit support annexes from counterparties. This agreement permits the exchange of collateral between counterparties to reduce possible increases in credit exposure.

Exposures relative to debt securities and interest-bearing deposits with financial instruments are managed by ensuring that ATB only transacts with eligible counterparties. Eligible counterparties are those with the required minimal credit rating and approval by the ATB Credit department.

Key measures of credit risk are outlined in the following tables.

Total Credit Exposure

The amounts shown in the following table represent ATB's maximum exposure to credit risk:

($ thousands)

	Outstanding	Undrawn Commitments(1)	Other	2009 Total	2008 Total
Loans(2)	$ 21,795,412	$ 10,005,865	$ -	$ 31,801,277	$ 28,594,780
Over-the counter derivatives (3)			137,901	$ 137,901	103,738
Other off-balance-sheet items(4)			320,414	$ 320,414	269,875
Total credit risk	$ 21,795,412	$ 10,005,865	$ 458,315	$ 32,259,592	$ 28,968,393

(1) Represents 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 includes recently authorized credit not yet drawn down and credit facilities available on a revolving basis.
(2) Includes residential mortgages, business, personal, and credit card loans.
(3) Derivative credit exposure is the fair value of all derivatives where ATB is in a favourable position, net of those contracts covered by a master netting agreement with the same counterparty that are in an unfavourable position and net of collateral held in the name of certain financial institutions. A master netting agreement allows ATB to net settle unfavourable contracts and reduce its net exposure in respect of favourable contracts with the same counterparty. Collateral held allows ATB to reduce its net exposure in respect of that counterparty. Credit risk related to derivatives is discussed further in Note 18.
(4) Letters of credit and guarantees represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations.

In addition to the previous table, ATB is exposed to credit risk on its holdings of $2.5 billion in interest-bearing deposits with financial institutions and $1.2 billion in securities (as detailed in Note 8).

Loans Past Due

Loans classified as past due but not impaired are those loans where the counterparties have failed to make payments when contractually due but for which there is reasonable expectation from management of receiving full payment.

($ thousands)

	Residential Mortgages	Business	Personal	Credit Card (1)	Total
Up to one month	$ 88,297	$ 68,491	$ 28,915	$ 31,384	$ 217,087
Over one month up to two months	8,667	5,573	8,289	$ 7,177	29,706
Over two months up to three months	3,213	5,074	5,410	$ 3,284	16,981
Over three months	624	2,667	2,187	$ 4,717	10,195
Total past due but not impaired	$ 100,801	$ 81,805	$ 44,801	$ 46,562	$ 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 are 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.

Note 5 (continued)

Impaired Loans

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal or interest. Loans are generally considered impaired when the loan principal or interest is 90 days or more past due from its contracted repayment date. Credit card loans are considered impaired when, for consumer balances, payments become 180 days past due, or for non-consumer balances, payments are past due for three billing cycles (approximately 90 days). Impaired loans consist of the following (refer to Note 9 for additional details):

($ thousands)

			2009	2008
	Gross impaired loan	Specific Allowances	Net carrying Value	Net carrying Value
Residential Mortgages	$ 29,959	$ 699	$ 29,260	$ 13,377
Personal	16,312	3,408	12,904	4,613
Agricultural	4,812	719	4,093	9,300
Independent Business	15,467	5,530	9,937	6,135
Commercial	9,268	5,967	3,301	194
	$ 75,818	$ 16,323	$ 59,495	$ 33,619

Concentration of Credit Risk

ATB faces credit risk from the risk of loss due to borrowers failing to meet their financial obligations. The loan portfolio represents the largest single source of credit risk to ATB, but credit risk also arises from the investment portfolio and off-balance-sheet transactions such as over-the-counter derivatives and other credit instruments (refer to Notes 7, 8, 18, and 19).

Concentrations of credit risk exist where a significant number of credit consumers are located in the same geographic region, engage in similar activities, or have similar economic characteristics. Their ability to meet their contractual obligations to ATB is similarly affected by changes in economic, political, or other conditions. ATB is inherently exposed to significant concentrations of credit risk as its customers are all participants in the Alberta economy, which, in past decades, 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, 2009, no single industry segment represents more than 26.8% of total gross business loans and no single borrower represents more than 0.5% of the total gross loan portfolio (2008: 23.8% and 0.5%, respectively).

Note 5 (continued)

To mitigate its credit exposure, ATB's loan portfolio is diversified across a number of customer and industry sectors as detailed in the following table:

	($ thousands)			
		2009		**2008**
	Outstanding [1]	**% of total**	**Outstanding [1]**	**% of total**
Individuals				
Residential mortgages	$ 7,367,698	34.1	$ 7,718,547	39.7
Personal	5,249,626	24.3	4,346,644	22.4
	12,617,324	58.4	$ 12,065,191	62.1
Business and other				
Mining and energy	2,420,416	11.2	1,717,908	8.9
Forestry, agricultural, and related services	1,324,564	6.1	1,359,990	7.0
Real estate	1,274,393	5.9	862,556	4.4
Accommodation, food and beverage	688,736	3.2	506,333	2.6
Construction	641,736	3.0	508,941	2.6
Transportation, communication, and utilities	527,283	2.4	448,498	2.3
Manufacturing	479,884	2.2	401,681	2.1
Retail trade	436,296	2.0	317,023	1.6
Business services	381,394	1.8	259,498	1.3
Educational services, health, and social services	320,055	1.5	235,758	1.2
Finance and insurance	253,006	1.2	176,870	0.9
Wholesale trade	198,041	0.9	165,941	0.9
Other services	114,477	0.5	474,756	2.4
Other	101,484	0.5	95,583	0.5
	9,161,765	42.4	7,531,336	38.7
Total loans before general allowance for credit losses	21,779,089	100.8	19,596,527	100.8
General allowance for credit losses	(176,854)	(0.8)	(153,010)	(0.8)
Net carrying value	$ 21,602,235	100	$ 19,443,517	100

[1] Outstanding amount includes credit balances and specific loan allowances.

Liquidity Risk

Liquidity risk is the risk of ATB being unable to meet known financial commitments when they come due and being unable to meet unexpected cash requirements at a reasonable cost. As with similar financial institutions, ATB's risk arises from fluctuations in cash flows from lending, deposit-taking, investing, and other activities. These commitments are generally met through cash flows supplemented by investment assets readily convertible to cash, or through our capacity to borrow.

ATB's liquidity management policy ensures sufficient funds are available to sustain our ongoing operations, to meet our customers' needs (such as cash withdrawals or loan advances), and to satisfy other financial obligations. We take into account both our liquid assets on hand and our ability to raise additional funds at a reasonable cost to meet liquidity requirements.

ATB mitigates liquidity risk by:

- Establishing prudent liquidity risk management policies combined with effective processes, monitoring, and management systems
- Conducting regular forecasting scenarios to ensure adequate liquidity is available to meet cash flow fluctuations and to react to commitments
- Reporting liquidity regularly to ensure compliance with our limits and guidelines

Note 5 (continued)

ATB manages liquidity by:

- Using a variety of funding sources for liquidity, primarily our retail deposit base
- Encouraging growth in deposits from individuals, which provide a stable source of funding over the long term
- Participating in Canadian financial markets through the issuance of short-and mid-term notes
- Maintaining a large holding of liquid assets in proportion to anticipated demand
- Establishing access to other sources of liquidity—including Receiver General term deposit auctions and short-term credit facilities with other financial institutions—that can be used on short notice if additional funds are required
- Maintaining a securitization program to raise liquidity through the sale of residential mortgages

ATB's internal optimal target liquidity level is between 10% and 12%, with a targeted minimum liquidity level of 10%. At March 31, 2009, ATB maintained a minimum liquidity level above the internal optimal target level of 10%.

ATB has an obligation to repurchase securities sold under repurchase agreements totalling $286,404 within the next three months (Refer to Notes 14 and 16 for details on the contractual maturity of ATB's deposits and subordinated debt.)

Market Risk

Market risk is the risk that ATB may incur a loss due to adverse changes in interest rates, foreign exchange rates, and equity or commodity market prices. Financial institutions such as ATB are exposed to market risk in day-to-day operations such as investing, lending, and deposit-taking.

ATB does not undertake direct trading activities for its own portfolio, therefore the primary market risks that ATB is exposed to are interest rate and foreign exchange risk. ATB's possible exposure to equity and commodity risk (derived from certain product offerings) is also discussed below.

ATB's key market risks and their measurement as at March 31, 2009, are outlined below:

Interest Rate Risk

Interest rate risk is the risk of a negative impact on ATB's net interest income (NII) and market value of equity (MVE) due to changes in interest rates. MVE represents the net present-value difference between the market value of our assets and the market value of our liabilities. Interest rate risk occurs when there is a mismatch in the re-pricing characteristics of interest-rate-sensitive assets (such as loans and investments) and interest-rate-sensitive liabilities (such as deposits). ATB uses derivative financial instruments, such as interest rate swaps, and other capital market alternatives, such as repurchase agreements, to manage its interest rate risk.

Corporate Treasury is responsible for managing interest rate risk with oversight provided by the Senior Asset Liability Committee (Senior ALCO). The Risk Committee of the Board reviews our risk management policies and standards annually. The objective of interest rate risk management is to ensure stable and high-quality net interest income that will facilitate income growth over time.

Interest rate risk management encompasses the following:

- Developing and recommending interest rate risk management policies and limits
- Developing methods to measure and report interest rate risk
- Managing interest rate risk within approved limits
- Monitoring interest rate risk and ensuring compliance with policies
- Reviewing interest rate risk exposure with ALCO and Senior ALCO on a monthly basis and the Risk Committee of the Board on a quarterly basis

ATB measures interest rate risk monthly through gap analysis and NII and MVE rate-shock analysis. Gap analysis allocates interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their re-pricing date. Rate-shock analysis is a simulation of the impact of interest rate fluctuations on ATB's NII and MVE.

Note 5 (continued)

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 re-pricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on NII 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 to protect NII 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 6 months	6 to 12 months	Total within 1 year	2 to 5 years	Over 5 years	Non-Interest rate'-sensitive	Total
2009								
Assets								
Cash	$ 353,724	$ -	$ -	$ 353,724	$ -	$ -	$ -	$ 353,724
Effective interest rate	0.65%	-	-	0.65%	-	-	-	0.65%
Securities and interest-bearing deposits with financial institutions	3,358,255	70,661	23,450	$ 3,452,366	6,024	-	-	3,458,390
Effective interest rate	0.86%	2.72%	2.39%	0.91%	2.94%			0.91%
Loans	14,624,059	483,611	812,000	$ 15,919,670	5,820,751	66,497	(204,683)	21,602,235
Effective interest rate	2.96%	5.60%	5.78%	3.18%	6.30%	6.37%	-	4.06%
Other	-						813,390	813,390
	18,336,038	554,272	835,450	19,725,760	5,826,775	66,497	608,707	26,227,739
Liabilities and Equity								
Deposits	10,980,652	1,224,665	2,174,698	14,380,015	9,501,231	-	-	23,881,246
Effective interest rate	1.01%	2.58%	2.46%	1.37%	2.32%			1.75%
Other liabilities and equity	-	-	-	-	-	-	2,289,480	2,289,480
Subordinated debentures	-	-	-	-	-	-	57,013	57,013
Effective interest rate	-	-	-	-	-	-	4.29%	4.29%
	10,980,652	1,224,665	2,174,698	14,380,015	9,501,231	-	2,346,493	26,227,739
On-balance sheet gap	7,355,386	(670,393)	(1,339,248)	5,345,745	(3,674,456)	66,497	(1,737,786)	-
Instruments used for asset/liability gap management[(1)] (notional amounts)								
Pay side swaps	(3,952,404)	(200,000)	-	(4,152,404)	(300,000)	-	-	(4,452,404)
Effective interest rate	0.81%	3.31%	-	0.93%	3.71%	-	-	-
Receive side swaps	1,050,000	236,000	611,000	1,897,000	2,555,404	-	-	4,452,404
Effective interest rate	2.56%	3.04%	3.87%	3.04%	3.43%	-	-	-
Off-balance sheet gap	(2,902,404)	36,000	611,000	(2,255,404)	2,255,404	-	-	-
Net gap	$ 4,452,982	$ (634,393)	$ (728,248)	$ 3,090,341	$ (1,419,052)	$ 66,497	$ (1,737,786)	$ -
As percentage of assets	16.98%	(2.42%)	(2.78%)	11.78%	(5.41%)	0.25%	(6.63%)	-
2008								
Assets	$ 14,914,990	$ 629,333	$ 784,927	$ 16,329,250	$ 6,456,365	$ 77,505	$ 480,033	$ 23,343,153
Liabilities and equity	14,404,815	866,853	1,502,663	16,774,331	4,401,385	-	2,167,437	23,343,153
On-balance sheet gap	510,175	(237,520)	(717,736)	(445,081)	2,054,980	77,505	(1,687,404)	-
Off-balance sheet gap	(1,500,000)	50,000	250,000	(1,200,000)	1,200,000	-	-	-
Net gap	$ (989,825)	$ (187,520)	$ (467,736)	$ (1,645,081)	$ 3,254,980	$ 77,505	$ (1,687,404)	$ -
As percentage of assets	(4.24%)	(0.80%)	(2.00%)	(7.05%)	13.94%	0.33%	(7.23%)	-

(1) 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.

Note 5 (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) 2009	2008
Impact on net earninigs in succeeding year from:		
Increase in interest rates of:		
100 basis points	$ 43,859	$ 19,190
200 basis points	87,421	25,175
Decrease in interest rates of:		
100 basis points	(43,859)	(19,361)
200 basis points	(89,458)	(44,136)

Foreign Exchange Risk

Foreign exchange risk is the potential risk of loss resulting from fluctuations in foreign exchange rates. This risk arises from the existence of a net asset or liability position denominated in foreign currencies and/or a difference in maturity profiles for purchases and sales of a given currency.

The Canadian dollar equivalent value of ATB's assets and liabilities denominated in foreign currencies is determined by the change in the value of the Canadian dollar against those currencies over time. The majority of ATB's foreign currency exposure is in U.S. dollars. ATB manages its net foreign currency exposure daily by ensuring that U.S. dollar and British pound sterling net exposures are kept within approved risk limits. For all other currencies, exposures are immediately offset with other counterparties. As at March 31, 2009, ATB's net foreign currency exposure was within policy risk thresholds.

Equity and Commodity Price Risks

Equity price risk arises when ATB offers deposit products where the rate of return is linked to changes in the value of equity securities or equity market indices. ATB uses equity-linked derivatives to hedge ATB's risk exposure on these products. Equity risk is managed within Board-approved limits.

Commodity price risk arises when ATB offers derivative products where the value of the derivative instrument is linked to changes in the price of an underlying commodity. ATB uses commodity-linked derivatives to fully hedge the associated commodity risk exposure on these products. ATB does not accept any net commodity price risk.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. ATB manages its exposure to operating risks by setting an appropriate governance structure and adhering to its operational risk management framework.

Reputational Risk

Reputational risk is the potential impairment of sound and safe practices and loss of confidence by stakeholders, caused by ATB, its directors, officers, or associates undertaking activities or risks in contravention to legal and regulatory requirements. ATB follows an annual compliance reporting process required under section 23.2 of the ATB Regulation and has developed code of conduct, privacy, and anti-money-laundering programs to support compliance. In addition, a functioning Risk Management Compliance department has been structured to enhance effective compliance with ATB's legislative compliance management framework.

NOTE 6 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 10% of risk-weighted assets. Risk-weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk.

Tier 1 capital consists of retained earnings and Tier 2 capital consists of eligible portions of the general allowance for credit losses and subordinated debentures. The capital requirements were amended effective March 31, 2009 in response to a requirement for additional capital caused largely by a reduction to Tier 1 capital resulting from ATB's provisions for asset-backed commercial paper. Pursuant to Section 20 of the ATB Act, the Minister of Finance and Enterprise amended the Capital Adequacy Guideline to provide ATB with $600 million in notional (or deemed) capital. Notional capital reduces by 25% of net income beginning April 1, 2009.

As at March 31, 2009, ATB has exceeded both the total capital requirement and the Tier 1 capital requirement of the amended Capital Adequacy Guideline.

	($ thousands)	
	2009	**2008**
Tier 1 capital		
Retained earnings	$ 1,649,753	$ 1,643,341
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	-	29,512
General allowance for credit losses	164,238	141,863
Notional capital	600,000	-
	764,238	171,375
Total regulatory capital	$ 2,413,991	$ 1,814,716
Total risk-weighted assets	$ 18,770,083	$ 16,212,873
Risk-weighted capital ratios		
Tier 1 capital ratio	8.79%	10.14%
Total capital ratio	12.86%	11.19%

NOTE 7 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 (refer to Note 13) and other liabilities (refer to Note 15). These amounts are included in ATB's liquidity calculation.

The March 31, 2009, carrying value consists of $2,515,268 (2008: $1,862,534) of interest-bearing deposits with financial institutions classified as AFS, and $1,221 (2008: $65,696) classified as HFT.

NOTE 8 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 conducts a quarterly review to identify and evaluate any AFS or HTM securities that show indications of impairment. When the fair value of a security has fallen below its amortized cost, management assesses whether the decline is 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.

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	2009 Total carrying value	2008 Total carrying value
Available-for-sale securities					
Issued or guaranteed by the Canadian federal or Provincial governments[1]	$ 159,814	$ 300,306	$ -	$ 460,120	$ 161,304
Commercial paper					
Third-party-sponsored ABCP	-	-	72,385	72,385	752,817
Bank-sponsored ABCP	-	-	-	-	76,333
Corporate paper	-	-	-	-	182,766
Retained interest in securitization	-	55,546	-	55,546	-
Other	6,207	4,855	-	11,062	7,131
Total available-for-sale securities	$ 166,021	$ 360,707	$ 72,385	$ 599,113	$ 1,180,351
Held-for-trading securities					
Commercial paper					
Third-party-sponsored ABCP	$ -	$ -	$ 582,792	$ 582,792	$ 37,684
Bank-sponsored ABCP	-		46,400	46,400	
Total held-for-trading securities	$ -	$ -	$ 629,192	$ 629,192	$ 37,684
Held-to-maturity securities					
Commercial paper					
Third-party-sponsored ABCP[2]	$ -	$ -	$ -	$ -	$ 35,483
Total held-to-maturity securities	$ -	$ -	$ -	$ -	$ 35,483
Total Securities	$ 166,021	$ 360,707	$ 701,577	$ 1,228,305	$ 1,253,518

(1) ATB entered into repurchase agreements with respect to certain securities in 2009. 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 is $290,339.
(2) The fair value of these securities at March 31, 2008 was $35,512.

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $44,440 as at March 31, 2009 (2008: $37,684).

Note 8 (continued)

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

			($ thousands)					
		Cost or unamortized 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 financial assets	$	3,101,202	$	13,460	$	(281)	$	3,114,381

As at March 31, 2008			($ thousands)					
		Cost or unamortized cost		**Gross unrealized gains**		**Gross unrealized losses**		**Carrying value**
Available-for-sale securities								
Issued or guaranteed by the Canadian federal or provincial governments	$	161,226	$	78	$	-	$	161,304
Commercial paper								
Third-party-sponsored ABCP		752,817		-		-		752,817
Bank-sponsored ABCP		76,333		-		-		76,333
Corporate paper		182,747		19		-		182,766
Other		7,131		-		-		7,131
Total available-for-sale securities	$	1,180,254	$	97	$	-	$	1,180,351
Interest-bearing deposits with financial institutions	$	1,862,462	$	72	$	-	$	1,862,534
Total available-for-sale financial assets	$	3,042,716	$	169	$	-	$	3,042,885

Note 8 (continued)

Asset-Backed Commercial Paper

ATB's holdings of asset-backed commercial paper (ABCP) are:

($thousands)

	Cost	Fair Value	Spread over Bankers' Acceptance rate	Expected maturity	Credit rating
Synthetic assets					
Class A-1	$ 421,216	$ 284,560	0.30%	Dec 2016	A
Class A-2	384,916	256,222	0.30%	Dec 2016	A
Class B	65,623	15,607	0.30%	Dec 2016	-
Class C	26,961	-	-	Dec 2016	-
Total synthetic assets	**$ 898,716**	**$ 556,389**			
Traditional assets	74,737	72,385	0.40%	Sep 2016	-
Ineligible assets	27,244	-	-	-	-
Total Montreal Accord	**$ 1,000,697**	**$ 628,774**			
ABCP not included in the Montreal Accord					
White Knight Trust	$ 34,770	$ 26,403	1.55%	Dec 2016	BBB
Sitka Trust	27,846	20,174	0.00%	Dec 2016	-
Sitka Trust	6,154	3,713	0.00%	Sep 2016	-
Superior Trust	33,021	22,513	0.35%	Sep 2016	AA
Total ABCP	**$ 1,102,488**	**$ 701,577**			

Montreal Accord Restructuring

On January 21, 2009, the investments subject to the Montreal Accord were restructured and ATB exchanged its original notes for new longer-term floating-rate notes that more closely matched the maturities of the underlying assets.

Under the restructuring, the series of ABCP supported in whole or in part by synthetic assets were pooled into one of two Master Asset Vehicles—MAV 1 or MAV 2. Assets secured exclusively by either traditional or ineligible assets were siloed from other assets in MAV 3. MAV 1 was formed for investors who elected (and had the required credit rating) to self-fund the required margin-funding facility (MFF), while MAV 2 was formed for investors who elected to obtain the required MFF from a third party for a fee. Under MAV 3, the return and maturity of the notes is directly tied to the net return and maturities of their respective underlying assets.

The MFF is in place to cover possible collateral calls on the leveraged super-senior trades underlying the Montreal Accord 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 $551.5 million, for which ATB will not receive a fee.

In addition to the MFF, a senior funding facility was also put in place. This senior funding facility is supported by the governments of Canada, Alberta, Ontario, and Quebec (as well as one of the MAV 1 participants) to cover possible shortfalls in the existing MFFs under both MAV 1 and MAV 2. ATB and all other investors must pay a fee to cover the cost of this facility—this fee is deducted from quarterly interest payments commencing in April 2009.

The key parties to the restructuring agreed to enhance the transaction by including a moratorium that prevents collateral calls for 18 months on leveraged super-senior trades.

Note 8 (continued)

Upon restructuring, ATB received from the MAV 1 a mix of notes (Class A-1, A-2, B, and C) with an expected maturity of December 2016. The notes have different levels of subordination relative to principal and interest payments—with A-1 and A-2 being the most highly ranked in the waterfall. The A1 and A2 notes have been given a credit rating of A; the B and C notes are not rated.

In March 2009, two of the three trades that were not covered under the 18-month collateral call moratorium were terminated when ATB did not pledge additional collateral. This resulted in ATB's holdings of A-1, A-2, B, and C notes being reduced by $29.7 million. The additional loss not yet provided for was recognized in the Consolidated Statement of Income for the year ended March 31, 2009.

Valuation – Montreal Accord

On January 21, 2009, an exchange of notes qualified as a sale of the previously held notes. As a result, the new notes were recognized at fair value as at that date. The notes with underlying assets with one or more embedded derivatives were classified as held for trading and the other securities were classified as available for sale. In the continued absence of an active market for third-party-sponsored ABCP issued under the Montreal Accord restructuring, ATB estimated a fair value of these investments as at January 21, 2009, and March 31, 2009, using a discounted cash flow valuation model. This model incorporates management's best estimates of multiple factors, updated to reflect market-related and other information that has become available since the corresponding valuation as at March 31, 2008.

ATB's valuation was based on conditions at March 31, 2009, and the key assumption in the valuation model is the market discount rate. The discount rate was based on the various tranches of the CDX.IG index. It is management's best estimate that the weighted average discount rate for the A-1, A-2, B, and C notes would be approximately 837 basis points. A 1.0% increase in the discount rate will decrease the fair value of the Montreal Accord ABCP by approximately $45.0 million.

The fair value provision on the Montreal Accord investments was $371.9 million or 37.2% of face value of notes held at March 31, 2009. This compares to the $243.0 million or 23.0% of face value at March 31, 2008. This increase has been driven by the increasing credit spreads and the downgrade of the provisional AA credit rating to the current A credit rating on the A-1 and A-2 notes.

Prior to restructuring, the fair value of the MFF was included in the provision for losses on ABCP. As at March 31, 2009, the fair value has been included in other liabilities. ATB has recognized the fair value of this commitment (using the 160 basis points cost of the MFF to MAV 2 note holders).

Other Bank- and Non-Bank-Sponsored Asset-Backed Commercial Paper

ATB has reclassified certain investments in non-bank-sponsored ABCP that were previously restructured from either AFS or HTM to HFT because these instruments contain embedded derivatives that ATB cannot bifurcate. ATB believes this is the most appropriate classification after consideration of the guidance issued by the Canadian Accounting Standards Board (AcSB). At March 31, 2009, investments with a face value of $67.0 million have been reclassified from AFS to HFT. Investments with a face value of $34.8 million have been reclassified from HTM to HFT. The impact of the reclassification has been recognized in the March 31, 2009, financial statements. These investments are recorded at fair value (using a discounted cash flow methodology similar to that used for the Montreal Accord valuation), and any required adjustment has been recorded through the income statement as a fair value adjustment. The impact on the prior year's income of this reclassification is not significant because an other-than-temporary impairment had been recognized on these securities in 2007–08.

Measurement Uncertainty

Although investments subject to the Montreal Accord successfully restructured in January 2009, there remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie the 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. The current economic slowdown in North America could have a significant impact on the valuation of the underlying assets, which could ultimately impact the value of the notes currently held.

NOTE 9 LOANS

Loans are recorded at amortized cost using the effective-interest-rate method, net of specific and general allowance 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.

Impaired Loans

Impaired loans, except for credit cards, are classified as such when there is no longer reasonable assurance as to the timely collection of principal and interest, or when principal or interest payments are 90 days past due. 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. The value of such assets as at March 31, 2009, and March 31, 2008, is insignificant.

Loans consist of the following:

($ thousands)

	2009				2008
	Gross loans	Specific allowances	General allowances	Net carrying value	Net carrying value
Residential mortgages	$ 7,368,397	$ 699	$ 10,192	$ 7,357,506	$ 7,707,924
Personal	4,926,582	3,408	26,633	4,896,541	4,061,925
Credit card	541,940	-	17,416	524,524	436,075
Agricultural	1,232,336	719	12,766	1,218,851	1,258,604
Independent business	2,324,350	5,530	45,417	2,273,403	2,128,715
Commercial	5,401,807	5,967	64,430	5,331,410	3,850,274
	$ 21,795,412	$ 16,323	$ 176,854	$ 21,602,235	$ 19,443,517

The net carrying value of the above loans includes residential mortgages insured primarily by Canadian Mortgage and Housing Corporation, totalling $2,727,688 as at March 31, 2009 (2008: $3,434,926), and other insured loans, totalling $88,245 (2008: $97,541).

The total net carrying value of the above loans includes those denominated in U.S. funds, totalling $409,952 as at March 31, 2009 (2008: $233,212).

NOTE 10 ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level management considers adequate to absorb credit-related losses for all items in its credit portfolio. The allowance relates primarily to loans, but also provides for any credit risk relating to off-balance-sheet items such as loan guarantees and letters of credit (refer to Note 19).

The allowance for credit losses consists of specific allowances for impaired loans and general allowances for credit risks. It is presented in the Consolidated Balance Sheet as a reduction of total loan balances or, for any portion of loan-related allowances over the related loan balance, included in other liabilities. The allowance is increased by the provision for credit losses that represents ATB's net credit loss experience for the year and is recorded in the Consolidated Statement of Income. The allowance is decreased by the amount of any provision related to loans written off and is net of any recoveries of previously recognized provisions.

Specific Allowances

The specific allowances on larger non-consumer impaired loans (including credit card balances) are established on a loan-by-loan basis to reduce the carrying value of the impaired loans to the amount expected to be recovered. Various methods are used to determine the net recoverable value of impaired loans, including the fair value of any underlying security, discounted to the amount recoverable in the event of realization, or to the observable market value for the loan. The specific allowance on consumer loans and smaller non-consumer loans is calculated using a formula based on recent loss experience for the particular product type. No specific allowance is provided for impaired consumer credit-card loans, as balances are written off if payment has not been received within 180 days, though collection efforts may continue. Any change in the amount we expect to recover on an impaired loan is reflected in the provision for credit losses in the Consolidated Statement of Income.

General Allowance

A general loan 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 installment loans, residential mortgages, and personal credit cards, adjusted for expected 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 non-consumer balances (including commercial, business and agriculture loans and credit cards, and credit instrument balances, adjusted for expected 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 non-commercial 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 follow-on probability of default, potential loss given default, and level of expected recoveries, if any, are also considered.

Note 10 (continued)

The continuity of the allowances for credit losses is as follows:

	Specific			General			Total		
($ thousands)	2009	2008	2007	2009	2008	2007	2009	2008	2007
Balance at begining of year	$ 11,896	$ 15,352	$ 19,348	$153,010	$141,827	$145,099	$164,906	$157,179	$164,447
Write-offs	(16,350)	(10,224)	(7,262)	-	-	-	(16,350)	(10,224)	(7,262)
Recoveries	3,743	5,045	5,205	-	-	-	3,743	5,045	5,205
Provision for (recovery of) credit losses, excluding impact of new GLLA methodology	18,868	1,723	(1,939)	23,844	11,183	21,057	42,712	12,906	19,118
Impact of new GLLA methodology[1]	-	-	-	-	-	(24,329)	-	-	(24,329)
Balance at end of year	18,157	11,896	15,352	176,854	153,010	141,827	195,011	164,906	157,179
Less: Allowance for cost of credit recovery included in other liabilities	1,834	3,136	3,345	-	-	-	1,834	3,136	3,345
Allowance for credit losses	$ 16,323	$ 8,760	$ 12,007	$176,854	$153,010	$141,827	$193,177	$161,770	$153,834

[1] During the second quarter of 2006-07, ATB implemented a refined methodology for establishing the level of its GLLA. This represented a change in estimate, was accounted for prospectively, and resulted in a one-time recovery of $24.3 million.

NOTE 11 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 a 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.

During the year, ATB securitized $1.0 billion (2008: nil) of mortgages and recorded a retained interest of $61.5 million (2008: nil) and servicing liabilities of $6.3 million (2008: nil) on the respective closing dates.

Note 11 (continued)

The following table summarizes the residential mortgage loans securitized by ATB:

	($ thousands) 2009	2008	2007
Proceeds, net of transaction fees	$ 1,045,462	$ -	$ -
Retained interests	61,486	-	-
Deferred servicing revenue	(6,265)	-	-
	1,100,683	-	-
Residential mortgages securitized and sold	1,047,372	-	-
Gains on sale, net of transaction fees	$ 53,311	$ -	$ -

The following table summarizes the impact of securitization activities on the Consolidated Statement of Income:

	($ thousands) 2009	2008	2007
Gain on sale, net of transaction fees	$ 53,311	$ -	$ -
Servicing revenues	1,028	-	-
Other securitization (loss) income	(530)	-	-
Securitization income	$ 53,809	$ -	$ -

The following table summarizes certain cash flows received from the CMB program:

	($ thousands) 2009	2008	2007
Net proceeds from new securitizations	$ 1,045,462	$ -	$ -
Cash flows received on retained interests	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:

	2009	2008
Expected weighted average life of mortgage pool (in months)	40.9	-
Prepayment rate	15.0%	-
Excess spread	2.8%	-
Discount rate	3.1%	-

	($ thousands) 2009	2008
Carrying amount of retained interest	$ 55,546	-
Prepayment rate	15.0%	-
Impact on fair value of 10% adverse change	(2,453)	-
Impact on fair value of 20% adverse change	(4,280)	-
Residual cash flows discount rate	3.1%	-
Impact on fair value of 10% adverse change	(242)	-
Impact on fair value of 20% adverse change	(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 11 (continued)

The following table summarizes information on residential mortgages serviced by ATB:

	($ thousands) 2009	2008
Total residential mortgages being serviced	$ 8,366,473	$ -
Less morgages securitized	998,076	-
Total gross residential mortgages as reflected on the Consolidated Balance Sheet	$ 7,368,397	$ -

NOTE 12 PREMISES AND EQUIPMENT

Premises and equipment are carried at cost less accumulated amortization, except for land, which is carried at cost. Buildings, computer equipment and software, other equipment, and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on assets 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
• Computer equipment and software	3 to 5 years
• Other equipment	5 to 10 years
• Leasehold improvements	Lease term plus first renewal period, to a maximum of 10 years

($ thousands)	2009			2008
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Land	$ 7,546	$ -	$ 7,546	$ 7,546
Buildings	120,403	61,071	59,332	17,281
Computer equipment and software	200,612	112,831	87,781	43,720
Other equipment	45,523	34,902	10,621	11,471
Leasehold improvements	108,569	79,518	29,051	40,690
Computer equipment and software under development	72,027	-	72,027	55,482
Leasehold improvements under construction	19,783	-	19,783	32,685
	$ 574,463	$ 288,322	$ 286,141	$ 208,875

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2009, in respect of the above assets was $46,795 (2008: $32,666).

Gains and losses on the disposal of assets 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 its estimated fair value. There were no such impairment write-downs recognized during the year ended March 31, 2009 (2008: nil).

NOTE 13 OTHER ASSETS

Other assets consist of the following:

($ thousands)

	2009	2008
Accrued interest receivable	$ 133,917	$ 177,617
Cheques and other items in transit	34,100	66,300
Prepaid expenses and other receivables	65,831	40,475
Accrued pension-benefit asset (Note 17)	21,445	20,826
Other	13,262	2,978
	$ 268,555	$ 308,196

NOTE 14 DEPOSITS

Deposit balances consist of the following

($ thousands)

	Payable on demand	Payable after notice	Payable on a fixed date: Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	2009 Total	2008 Total
Personal	$ 1,603,916	$ 3,154,013	$ 2,952,636	$ 1,807,075	$ 883,606	$ 170,928	$ 225,366	$ 29	$ 10,797,569	$ 9,757,840
Business and other	4,067,659	2,141,341	3,545,821	258,421	111,084	14,318	19,646	-	10,158,290	8,035,590
Wholesale	-	-	1,330,371	-	-	797,508	398,754	398,754	2,925,387	3,382,286
	$ 5,671,575	$ 5,295,354	$ 7,828,828	$ 2,065,496	$ 994,690	$ 982,754	$ 643,766	$ 398,783	$ 23,881,246	$ 21,175,716

Total deposits presented above include $502,961 (2008: $423,488) denominated in U.S. funds.

As at March 31, 2009, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $9,284 (2008: $3,048) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $58 (2008: $149).

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, 2009, the fee was $29,417 (2008: $20,210).

NOTE 15 OTHER LIABILITIES

Other liabilities consist of the following:

($ thousands)

	2009	2008
Accrued interest payable	$ 159,485	$ 161,072
Accounts payable and accrued liabilities	195,107	137,035
Cheques and other items in transit	7,300	17,200
Deposit guarantee fee payable	28,004	20,210
Due to clients, brokers, and dealers	7,334	3,301
Accrued pension-benefit liability (Note 17)	6,048	4,779
	$ 403,278	$ 343,597

NOTE 16 SUBORDINATED DEBENTURES

ATB privately places debentures with the Crown in right of Alberta. These debentures, which are unsecured and subordinated to deposits and other liabilities, have been issued in the past in respect of ATB's obligation for the year's deposit guarantee fee. The amount due for the deposit guarantee fee for fiscal 2008 was paid in cash and no subordinated debt was issued in fiscal 2009. These subordinated debentures are non-convertible, non-redeemable, non-transferable, and bear a fixed rate of interest payable semi-annually.

ATB's obligation for the deposit guarantee fee for the year ended March 31, 2009, is recorded in other liabilities in the Consolidated Balance Sheet (refer to Note 15). Subordinated debentures, issued to March 31, 2009, consist of the following:

		($ thousands)	
Maturity date	**Interest rate**	**2009**	**2008**
June 30, 2008	4.287%	$ -	$ 15,985
June 30, 2009	3.800%	11,837	11,837
June 30, 2010	4.200%	15,785	15,785
June 30, 2011	4.630%	13,401	13,401
June 30, 2012	4.450%	15,990	15,990
		$ 57,013	$ 72,998

NOTE 17 EMPLOYEE FUTURE BENEFITS

ATB provides future benefits to current and past employees through a combination of defined benefit and defined contribution 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 defined benefit 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 defined benefit (DB) and defined contribution (DC) provisions. ATB also provides a non-registered defined benefit supplemental 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 (hereinafter referred to as the "PSPP take-on"). The arrangements formalized ATB's commitment to provide 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 annual transfers of obligations and assets in respect of management employees promoted 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 17 (continued)

An initial transition asset (which arose as of March 31, 1999, when ATB prospectively adopted the then-new accounting standard on employee future benefits) is being amortized on a straight-line basis over 10 years, the expected average remaining service period (EARSP) of active participants as at that time. A past-service amendment (which arose as of April 1, 2003, when the SRP was amended to include limits to pensionable earnings, reducing the accrued benefit obligation related to then-past services) is being amortized on a straight-line basis over 14 years, the EARSP of participants expected to receive supplemental benefits as at that time.

In conjunction with the PSPP take-on, ATB formalized its commitment to provide CPS benefits to active and inactive DB members with PSPP service. The estimated net impact of this was accounted for as a plan amendment in the year ended March 31, 2006. The March 31, 2006, projected benefit obligation of the DB plan was increased by $5,438 (in respect of active members) and increased by $686 for other pension obligations (in respect of inactive members).

Effective July 15, 2006, benefit obligations of $35,149 and assets of $21,918 (plus market return to the payment date) were transferred into the ATB Plan in conjunction with the PSPP take-on. This net additional liability of $13,231 accepted by the DB plan represents a past-service cost and is being amortized on a straight-line basis over 10.6 years, the EARSP of members subject to the transfer as at that time.

Accounting for PSPP 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, 2009, expenses related to the PSPP were $7,290 (2008: $6,564; 2007: $5,457) and expenses related to DC provisions of the ATB Plan were $9,632 (2008: $6,861; 2007: $6,927).

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 2009		Actual	Target 2008		Actual	Actual
	Normal	Min-Max	2009	Normal	Min-Max	2008	2007
		%			%		%
Equities							
Canadian	25	20-30	17	25	20-30	24	27
Foreign	45	40-50	35	45	40-50	41	43
	70		52	70		65	70
Fixed Income							
Canadian	30	20-40	48	30	20-40	35	30
Cash	-	0-15	-	-	0-15	-	-
	100		100	100		100	100

Cash Payments

Total cash paid or payable for employee future benefits for the year ended March 31, 2009— 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 $20,849 (2008: $17,636; 2007: $39,024).

Note 17 (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 comprise the SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB) consist of the following:

	($ thousands) 2009	2008
Registered plan		
Fair value of plan assets	$ 111,247	$ 143,800
Projected benefit obligation	(133,118)	(151,063)
Plan funding deficit	(21,871)	(7,263)
Unamortized initial-transition asset	-	(394)
Unamortized past-service amendment	15,840	16,012
Unamortized actuarial net loss	27,476	12,471
Accrued pension-benefit asset	$ 21,445	$ 20,826
Supplemental and other		
Unfunded projected benefit-obligation, representing the plan funding deficit	$ (4,900)	$ (6,131)
Unamortized past-service amendment	1,476	1,626
Unamortized actuarial net gain	(2,624)	(274)
Accrued pension-benefit liability	$ (6,048)	$ (4,779)

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 13 and 15.)

Note 17 (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:

($ thousands)

	Registered plan			Supplemental and other		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
Change in fair value of plan assets						
Fair value of plan assets at beginning of year	$ 143,800	$ 154,277	$ 94,127	$ -	$ -	$ -
Contributions from ATB	3,710	3,507	26,503	216	704	137
Contributions from employees	1,126	1,061	1,065	-	-	-
Actual (loss) return on plan assets	(34,742)	(11,351)	11,903	-	-	-
Benefits paid	(5,650)	(6,116)	(3,752)	(216)	(704)	(137)
Net transfer in - PSPP	3,894	3,367	25,492	-	-	-
Actual plan expenses	(891)	(945)	(1,061)	-	-	-
Fair value of plan assets at end of year	$ 111,247	$ 143,800	$ 154,277	$ -	$ -	$ -
Change in projected benefit obligation						
Projected benefit obligation at beginning of year	$ 151,063	$ 163,129	$ 118,040	$ 6,131	$ 6,513	$ 2,442
Actuarial (gain) loss	(30,075)	(24,055)	(4,638)	(2,343)	(1,046)	447
Current service cost	1,740	2,352	3,064	895	976	633
Contributions from employees	1,126	1,061	1,065	-	-	-
Plan amendment - earnings maximum	-	-	-	-	-	2,838
Plan amendment - PSPP	1,583	2,548	15,958	-	-	-
Net transfer in - PSPP	3,894	3,367	25,492	-	-	-
Interest cost	9,437	8,777	7,900	433	392	290
Benefits paid	(5,650)	(6,116)	(3,752)	(216)	(704)	(137)
Projected benefit obligation at end of year	$ 133,118	$ 151,063	$ 163,129	$ 4,900	$ 6,131	$ 6,513

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the SRP and OPEB consists of the following:

($ thousands)

	Registered plan			Supplemental and other		
	2009	2008	2007	2009	2008	2007
Current service cost (including provision for expenses)	$ 2,500	$ 3,252	$ 4,264	$ 895	$ 976	$ 633
Interest cost on projected benefit obligation	9,437	8,777	7,900	433	392	290
Plan amendments	1,583	2,548	15,958	-	-	2,838
Actual loss (return) on plan assets	34,742	11,351	(11,903)	-	-	-
Actuarial (gains) losses	(30,075)	(24,055)	(4,638)	(2,343)	(1,046)	447
	18,187	1,873	11,581	(1,015)	322	4,208
Adjustments to recognize the long-term nature of employee future-benefit costs:						
Difference between actual and expected return on plan assets	(44,949)	(22,143)	4,080	-	-	-
Difference between actual actuarial (gains) losses arising and actuarial (gains) losses amortized	30,075	24,055	6,130	2,350	1,067	(437)
Amortization of initial transition asset	(394)	(394)	(394)	-	-	-
Difference between actual past-service amendment arising and past-service amendments amortized	172	(546)	(14,408)	150	207	(2,651)
Net pension-benefit expense recognized	$ 3,091	$ 2,845	$ 6,989	$ 1,485	$ 1,596	$ 1,120

Note 17 (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		
	2009	2008	2007	2009	2008	2007
Accrued benefit obligation as at March 31						
Discount rate at end of year	8.30%	6.20%	5.30%	8.30%	6.20%	5.30%
Rate of compensation increase [(1)]	2.60%	4.40%	4.60%	2.60%	6.00%	5.80%
Defined benefit expense for the years ended March 31						
Discount rate at beginning of year	6.20%	5.30%	5.40%	6.20%	5.30%	5.40%
Expected long-term return on plan assets	7.08%	6.96%	7.12%	-	-	-
Rate of compensation increase [(1)]	4.40%	4.60%	5.20%	6.00%	5.80%	4.70%
Average remaining service period of active employees	9 years	9 years	9 years	12 years	12 years	12 years
Average remaining service period of active employees						
(2006 PSPP transfer)	10.6 years	10.6 years	10.6 years	-	-	-
(2007 PSPP transfer)	11.2 years	11.2 years	11.2 years	-	-	-
(2008 PSPP transfer)	11.2 years	11.2 years	-	-	-	-
(2009 PSPP transfer)	11 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, 2009, and the related expense for the year then ended:

($ thousands)

		Registered plan		Supplemental and other	
		Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Discount Rate					
Impact of:	1.0% increase	$ (15,098)	$ (680)	$ (549)	$ (180)
	1.0% decrease	$ 18,629	$ 3,236	$ 667	$ 123
Inflation Rate					
Impact of:	1.0% increase	$ 8,343	$ 1,702	$ (49)	$ 1
	1.0% decrease	$ (7,476)	$ (834)	$ (54)	$ (36)
Rate of Compensation Increase					
Impact of:	0.25% increase	$ 783	$ 151	$ 53	$ 14
	0.25% decrease	$ (634)	$ (142)	$ (54)	$ (13)
Expected long-term rate of return on plan assets					
Impact of:	1.0% increase	$ -	$ (1,442)	$ -	$ -
	1.0% decrease	$ -	$ 1,442	$ -	$ -

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 18 DERIVATE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, 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 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).

In its non-trading (or "corporate derivative") portfolio, ATB uses derivative financial instruments for risk management, to manage its exposure to fluctuations in interest or foreign exchange rates as an integral component of its asset/liability management program.

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 main types of 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 18 (continued)

Corporate (Non-Trading) Derivatives and Hedge Accounting

ATB's corporate (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.

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.

Cash Flow Hedges

The derivative instrument in a cash flow hedge is 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 variable-rate 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 $70,839. This will be offset by gains/losses on assets/liabilities that were hedged.

No derivative instruments have been designated as fair value hedges as of March 31, 2009 (or as of March 31, 2008).

Client (Trading) Derivatives

ATB does not enter into derivative contracts for trading purposes except to accommodate its clients in managing their foreign-currency and energy-commodity risk exposures. In such instances, any resultant commodity exposure to ATB is simultaneously offset with another derivative contract, and any resulting foreign currency exposure to ATB not incorporated into its own risk management program is simultaneously offset.

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- 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.

Fair Value of Derivatives

Fair value represents a point-in-time estimate that may change in subsequent reporting periods due to changing market conditions or other factors. Fair value estimates of over-the-counter and embedded derivative financial instruments are determined 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 18 (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:

($ thousands)

	2009			2008		
	Favourable position	Unfavourable position	Net	Favourable position	Unfavourable position	Net
Contracts ineligible for hedge accounting						
Interest rate contracts						
Options	$ 176	$ -	$ 176	$ 782	$ -	$ 782
Swaps	4,736	(2,471)	$ 2,265	2,263	(12)	2,251
	4,912	(2,471)	2,441	3,045	(12)	3,033
Embedded derivatives						
Equity-and commodity-linked deposits	-	(16,766)	(16,766)	-	(48,433)	(48,433)
Other	-	(3)	(3)	-	(161)	(161)
	-	(16,769)	(16,769)	-	(48,594)	(48,594)
Foreign-exchange contracts						
Forwards	5,331	(1,389)	3,942	195	(179)	16
Equity contracts						
Options	16,764	-	16,764	47,200	-	47,200
Forward contracts						
Commodities	93,072	(92,297)	775	28,070	(27,813)	257
Total fair value ineligible contracts	$ 120,079	$ (112,926)	$ 7,153	$ 78,510	$ (76,598)	$ 1,912
Contracts eligible for hedge accounting						
Interest rate contracts						
Swaps	138,615	(14,592)	124,023	30,740	(5,792)	24,948
Total fair value eligible contracts	138,615	(14,592)	124,023	30,740	(5,792)	24,948
Total fair value	$ 258,694	$ (127,518)	$ 131,176	$ 109,250	$ (82,390)	$ 26,860

Notional Principal Amounts

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. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Balance Sheet.

($ thousands)

	2009			2008
	Ineligible for hedge accounting	Eligible for hedge accounting	Total	Total
Interest rate contracts				
Options	$ 89,376	$ -	$ 89,376	$ 131,080
Swaps	626,000	3,540,000	4,166,000	2,735,039
	715,376	3,540,000	4,255,376	2,866,119
Embedded derivatives				
Equity-linked deposits	243,389	-	243,389	257,078
Other	70,094	-	70,094	105,130
	313,483	-	313,483	362,208
Foreign-exchange contracts				
Forwards	270,917	-	270,917	19,992
Equity contracts				
Options	238,055	-	238,055	249,650
Forward contracts				
Commodities	1,204,847	-	1,204,847	354,738
	$ 2,742,678	$ 3,540,000	$ 6,282,678	$ 3,852,707

Note 18 (continued)

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 $26,515 as at March 31, 2009 (2008: $8,550).

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. This risk is normally a small fraction of the notional amount of the derivative instrument. 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 any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

Credit risk exposure on the derivative portfolio consists of the following:

($ thousands)

			2009	2008
	Ineligible for hedge accounting	Eligible for hedge accounting	Total	Total
Interest rate contracts				
Options	$ 176	$ -	$ 176	$ 782
Swaps	4,736	138,615	143,351	33,003
	4,912	138,615	143,527	33,785
Foreign-exchange contracts				
Forwards	5,331	-	5,331	195
Equity contracts				
Options	16,764	-	16,764	47,200
Forward contracts				
Commodities	93,072	-	93,072	28,070
Total derivative exposure - gross	$ 120,079	$ 138,615	258,694	109,250
Less impact of master netting agreements			(17,063)	(5,512)
Less impact of financial institution counterparty collateral held			(103,730)	-
Residual credit exposure on derivatives			$ 137,901	$ 103,738

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $24,664, which relates to client counterparties (2008: $28,265).

Note 18 (continued)

Term to Maturity

The instruments in the derivative portfolio have varying maturity dates. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

($ thousands)

	2009				2008
	Within 3 Months	3 to 12 Months	1 to 5 Years	Total	Total
Interest rate contracts					
Options	$ 7,521	$ 18,935	$ 62,920	$ 89,376	$ 131,080
Swaps	550,000	1,047,000	2,569,000	4,166,000	2,735,039
Foreign exchange contracts					
Forwards	191,937	43,713	35,267	270,917	19,992
Equity contracts					
Options	6,850	70,875	160,330	238,055	249,650
Forward contracts					
Commodities	43,780	658,981	502,086	1,204,847	354,738
Embedded derivatives					
Equity-and commodity-linked deposits	-	67,275	176,114	243,389	257,078
Other	4,887	11,673	53,534	70,094	105,130
Total	$ 804,975	$ 1,918,452	$ 3,559,251	$ 6,282,678	$ 3,852,707

NOTE 19 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 the future cash requirements.

Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer is unable to meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or in the form of services) to another party based on changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. In the event of a call on such commitments, ATB has recourse against the customer.

Note 19 (continued)

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:

	($ thousands) 2009	2008
Guarantees	$ 170,254	$ 163,829
Letters of credit	150,160	106,046
Commitments to extend credit	10,005,865	8,989,493
	$ 10,326,279	$ 9,259,368

The amounts presented above in the current and comparative year for commitments to extend credit include demand facilities of $5,443,063 (2008: $3,965,904). 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 normally drawn over a period of time and in some cases may never be drawn, or may be reduced due to changing customer requirements.

Pledged Assets

In the ordinary course of business, ATB pledges securities and interest-bearing deposits with financial institutions 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.

	($ thousands) 2009	2008
Assets pledged to:		
Bank of Canada	$ 386,000	$ 348,500
Clearing and Depository Services Inc.	14,000	14,000
	$ 400,000	$ 362,500

At March 31, 2009, the total amount of pledged assets encumbered was $44,250 (2008: $35,600).

At March 31, 2009, ATB held $103,730 (2008: nil) in financial assets as collateral.

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, 2009, or March 31, 2008, in respect of such indemnifications.

Note 19 (continued)

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 Master Asset Vehicle (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 $551.5 million 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:

	($ thousands)
2010	$ 62,301
2011	53,292
2012	41,781
2013	24,951
2014	18,597
2015 and thereafter	10,163
	$ 211,085

The total expense for premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2009, is $27,856 (2008: $25,088; 2007: $22,231).

NOTE 20 DISCLOSURE OF SALARIES AND BENEFITS

Salaries and Benefits

ATB is an agent of the Crown in right of Alberta and, as such, is required to disclose certain information prepared in accordance with Treasury Board Directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies, and Crown-controlled organizations. In accordance with the directive, the amounts disclosed in the following table reflect amounts earned in the years ended March 31:

Note 20 (continued)

($ thousands)

	Base salary (1)	Variable pay current (2)	Variable pay deferred (3)	Other cash benefits (4)	Retirement and Other Post-Employement Benefits	Other Non-Cash Benefits (5)	2009 Total	2008 Total
Chairman of the Board	$ -	$ -	$ -	$ 73	$ -	$ -	$ 73	$ 83
Board Members (6)	$ -	$ -	$ -	457	$ -	$ -	457	516
President and Chief Executive Officer (7)	502	278	206	25	429	25	1,465	1,618
Chief Risk Officer (8)	238	70	54	13	79	19	473	482
Chief Financial Officer	245	72	40	12	60	16	445	505
Chief People and Marketing Officer (9)	227	67	43	12	64	18	431	431
Executive Vice-President Retail Financial Services	221	114	42	12	38	20	447	471
Executive Vice-President Corporate Financial Services	231	172	54	13	66	15	551	660
Executive Vice-President and President Investor Services	247	209	74	12	58	11	611	655

(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, dental coverage, vision coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, tuition, and professional memberships.
(6) The Board consists of 12 members plus the Chairman, whose remuneration is disclosed separately.
(7) The incumbent does not participate in either the registered pension plan or the supplemental pension plan, but does receive other post-employment benefits.
(8) The position of Chief Risk officer was established in 2008-09. In 2007-08, the incumbent held the position of Executive Vice-President of Credit.
(9) The position Chief People and Marketing was established in 2008-09. In 2007-08, the incumbent held the position senior Vice-President of Human Resources.

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 (RPP) together with participation in our non-registered defined benefit supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements.

Refer to Note 17 for a detailed description of ATB's accounting for its retirement plans.

($ thousands)

	Registered plan service cost (1)	Supplemental and other post-employment benefit service costs (2)	Prior service and other costs	2009 Total	2008 Total
President and Chief Executive Officer (3)	$ -	$ 386	$ 43	$ 429	$ 322
Chief Risk Officer	10	37	32	79	81
Chief Financial Officer	10	36	14	60	64
Chief People and Marketing Officer	10	29	25	64	71
Executive Vice-President Retail Financial Services	10	15	13	38	41
Executive Vice-President Corporate Financial Services	10	36	20	66	69
Executive Vice-President and President Investor Services	10	25	23	58	66

Note 20 (continued)

(1) The RPP current-service cost for defined contribution members is equal to the cash contributions made by ATB for the year ended March 31. For defined benefit members, the RPP current-service cost is equal to 15.3% of pensionable earnings for the same period, the average cost of service for all members.
(2) 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, but are 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.
(3) The incumbent does not participate in either the RPP or the SRP, but does receive other post-employment benefits.

The accrued SRP and OPEB obligation for each executive is as follows:

	($ thousands)		
	Accrued obligation March 31, 2008	**Change in accrued obligation**	**Accrued obligation March 31, 2009**
President and Chief Executive Officer [1]	$ 310	$ 345	$ 655
Chief Risk Officer	330	(69)	261
Chief Financial Officer	145	(11)	134
Chief People and Marketing Officer	263	(97)	166
Executive Vice-President Retail Financial Services	124	(22)	102
Executive Vice-President Corporate Financial Services	212	(43)	169
Executive Vice-President and President Investor Services	224	(75)	149

(1) The incumbent does not participate in either the RPP or the SRP, but does receive other post-employment benefits.

NOTE 21 RELATED-PARTY TRANSACTIONS

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties (refer to Note 14). During the year, ATB leased certain premises from the Government of Alberta and paid insurance premiums as a participant in the Alberta Finance Risk Management Fund. For the year ended March 31, 2009, the total of these payments was $881 (2008: $964). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits (refer to Note 14). ATB also has subordinated debt outstanding with the Crown in right of Alberta from prior years (refer to Note 16).

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.

Note 21 (continued)

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:

	($ thousands) 2009	2008
Residential mortgages	$ 201,117	$ 201,334
Personal	87,954	87,974
Credit card	13,965	11,234
Business and other	5,618	5,578
	$ 308,654	$ 306,120

NOTE 22 ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income are:

	($thousands) 2009	2008
Net unrealized gains on available-for-sale securities and interest bearing deposits with financial institutions, net of hedging activites	$ 13,179	$ 169
Net unrealized gains on derivative instruments designated as cash flow hedges	95,752	24,942
Accumulated other comprehensive income	$ 108,931	$ 25,111

NOTE 23 SEGMENTED INFORMATION

ATB has organized its operations and activities around the following three business segments or lines of business:

- **Personal and Business Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals, independent business, and agricultural customers.
- **Corporate Financial Services** provides financial services to medium- and large-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.

Note 23 (continued)

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 Standards and Accounting Guideline 4-related adjustments, which are recorded at the other business unit (corporate) level only. (Note: 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.)

($ thousands)

	Personal and Business Financial Services	Corporate Financial Services	Investor Services	Other business units [1]	Total
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 for loss on asset-back commercial paper	-	-	-	(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
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
2008					
Net interest income	$ 466,865	$ 78,218	$ 6,814	$ 107,513	$ 659,410
Other income	126,823	19,940	39,023	209	185,995
Provision for loss on asset-back commercial paper	-	-	-	(253,133)	(253,133)
Total operating revenue (loss)	593,688	98,158	45,837	(145,411)	592,272
Provision for (recovery of) credit losses	18,235	(339)	-	(4,990)	12,906
Non-interest expenses	431,047	26,956	43,462	47,916	549,381
Net income (loss)	$ 144,406	$ 71,541	$ 2,375	$ (188,337)	$ 29,985
Total assets	$ 15,474,620	$ 3,960,815	$ 4,078	$ 3,903,640	$ 23,343,153
Total liabilities	$ 14,776,994	$ 2,153,106	$ 548,877	$ 4,195,724	$ 21,674,701
2007					
Net interest income	$ 423,176	$ 62,515	$ 5,127	$ 80,987	$ 571,805
Other income	119,462	14,901	28,969	16,329	179,661
Total operating revenue	542,638	77,416	34,096	97,316	751,466
(Recovery of) provision for credit losses	(8,699)	12,003	-	(8,515)	(5,211)
Non-interest expenses	385,403	19,279	36,069	41,538	482,289
Net income (loss)	$ 165,934	$ 46,134	$ (1,973)	$ 64,293	$ 274,388
Total assets	$ 13,645,926	$ 3,454,594	$ 2,800	$ 3,191,398	$ 20,294,718
Total liabilities	$ 13,974,317	$ 1,875,709	$ 436,294	$ 2,385,015	$ 18,671,335

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.*

Note 23 (continued)

Customer-related assets and liabilities (and the directly related revenues and expenses) are allocated between 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 (NII) is attributed to each line of business according to ATB's internal funds transfer pricing (FTP) system whereby assets "earn" NII to the extent that external revenues exceed internal FTP expense, and liabilities "earn" NII 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 (excepting 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 methods of allocating costs between the reporting segments, 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 24 PAYMENT IN LIEU OF TAX

Bill 13 received Royal Assent and came into force June 3, 2008. This amendment to the ATB Act allows the Government of Alberta to assess a charge to ATB in lieu of tax as prescribed by the ATB Regulation. As at March 31, 2009, the ATB Regulation has not been updated and the methodology for the calculation of this payment has not been defined. As a result, ATB has not accrued a liability for this payment as at March 31, 2009.

NOTE 25 FUTURE CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

In February 2008, the CICA issued *CICA Handbook* section 3064, Goodwill and Intangible Assets, which will take effect for ATB beginning April 1, 2009. This standard replaces section 3062, Goodwill and Other Intangible Assets, and section 3450, Research and Development Costs. It establishes the standard for the recognition, measurement, and disclosure of goodwill and intangible assets. The impact of this new standard will be reflected in ATB's financial statements for the quarter ending June 30, 2009.

Conversion to International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the basis for financial reporting by Canadian publicly accountable enterprises will move from Canadian Generally Accepted Accounting Standards to International Financial Reporting Standards (IFRS) and will be effective for fiscal year-ends beginning on or after January 1, 2011. This change is part of a worldwide transition to IFRS intended to facilitate global capital flows and greater clarity and consistency in financial reporting in the global marketplace. ATB will adopt IFRS for the year ended March 31, 2012. ATB has started an IFRS conversion project and is currently evaluating the impact of the application of these standards on the consolidated financial statements.

NOTE 26 SUBSEQUENT EVENTS

Subsequent to March 31, 2009, ATB has received repayment of principal of $65.4 million on certain traditional ABCP notes issued under the Montreal Accord. These notes were not scheduled to repay until between 2014 and 2016. The total amount received of $65.4 million compares to a face value of $73.5 million and a fair value of $72.4 million at March 31, 2009. The remaining $8.1 million in face value is expected to repay on the original maturity date of between 2014 and 2016.

ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Board of Directors of ATB Insurance Advisors Inc.

I have audited the balance sheet of ATB Insurance Advisors Inc. as at March 31, 2009, and the statements of operations and comprehensive loss, deficit, 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 17, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

($)

	2009	2008
ASSETS		
Current assets		
Cash	$ 235,110	$ 137,459
Accounts receivable	13,058	-
Due from affiliates (Note 5)	45,318	-
	293,486	137,459
Capital assets (Note 6)	18,160	30,266
	$ 311,646	$ 167,725
LIABILITIES		
Current liabilities		
Accrued liabilities	$ 127,628	$ 55,274
Variable compensation payable	39,564	10,266
Due to ATBF (Note 7)	2,820,939	1,397,140
Due to affiliates (Note 5)	-	21,161
Current portion of deferred revenue	25,544	-
Current portion of deferred variable pay	3,406	-
	3,017,081	1,483,841
Deferred revenue	44,548	25,544
Deferred variable pay	8,227	
	$ 3,069,856	1,509,385
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 8)	5,000	5,000
Deficit	(2,763,210)	(1,346,660)
	(2,758,210)	(1,341,660)
	$ 311,646	167,725

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

As at March 31, 2009

	($) 2009	2008
Balance - Beginning of year	$ (1,346,660)	$ -
Net loss for the year	(1,416,550)	(1,346,660)
Balance - End of year	$ (2,763,210)	$ (1,346,660)

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2009

	($) 2009	For the 16 months ended 2008
Revenue (Note 9)		
Insurance commissions	$ 1,439,054	$ 826,540
Interest income	3,271	6,904
	1,442,325	833,444
Administration and Selling expenses (Note 9)		
Variable compensation expense	393,643	235,304
Salaries and employee benefits (Note 11)	1,267,516	1,173,742
Referral fees paid to affiliates	182,457	107,171
Other expenses	782,777	435,873
Amortization expense	12,106	-
Professional fees	140,017	176,242
Interest expense	80,359	51,772
	2,858,875	2,180,104
Net loss and comprehensive loss	$ (1,416,550)	$ (1,346,660)

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

Statement of Cash Flows

For the year ended March 31, 2009

	($) 2009	For the 16 months ended 2008
Cash provided for (used in)		
Operating activities		
Net loss for the year	$ (1,416,550)	$ (1,346,660)
Items not affecting cash		
Amortization of capital assets	12,106	-
	(1,404,444)	(1,346,660)
Net change in non-cash working capital items		
Net (decrease) increase in due to (from) affiliates	(66,479)	21,161
Increase in accounts receivable	(13,058)	-
Increase in accrued liabilities	72,354	55,274
Increase in variable compensation payable	29,298	10,266
Increase in deferred revenue	44,548	25,544
Increase in deferred variable pay	11,633	-
	(1,326,148)	(1,234,415)
Investing activities		
System development costs	-	(30,266)
Financing activities		
Issuance of share capital	-	5,000
Increase in due to ATBF	1,423,799	1,397,140
	1,423,799	1,402,140
Net change in cash	97,651	137,459
Cash- Beginning of period	137,459	-
Cash - End of period	$ 235,110	$ 137,459
Supplementary information		
Interest paid	$ 80,359	$ 44,861
Interest received	$ 3,271	$ 6,904

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 Insurance Advisors Inc. ("ATBIA") is a wholly owned subsidiary of ATB Financial ("ATBF") established for the purpose of selling wealth management related insurance products to customers of ATBF and its subsidiaries. The continuing operations of ATBIA are dependent upon ATBF's ongoing financial support. ATBIA was incorporated in Alberta under the Business Corporations Act (Alberta) on July 21, 2006 and commenced operations in December 2006. As a provincial corporation, ATBIA is exempt from income tax.

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 with 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

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 ATBF.

d) CAPITAL ASSETS

Capital assets are carried at cost less accumulated amortization. Computer software and system development is amortized on a straight-line basis over the estimated useful life of between three and five 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.
- Accrued liabilities, variable compensation payable, due to ATBF, due to affiliates and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.
- Accounts receivable and due from affiliates are classified as loans and receivables and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

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) FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

On April 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures and CICA Handbook Section 3863, Financial Instruments – Presentation, replacing CICA Handbook Section 3861. CICA Handbook Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks. CICA Handbook Section 3863 carries forward, unchanged, the presentation requirements of CICA Handbook Section 3861 with respect to financial instruments. These standards harmonize disclosures with International Financial Reporting Standards (see Note 10).

b) CAPITAL DISCLOSURES

In July 2008, the Accounting Standards Board amended the CICA Handbook Section 1535, Capital Disclosures, to reduce disclosure requirements for non-publicly accountable enterprises ("NPAE") so that only NPAE's with externally imposed capital requirements need to disclose information about those requirements. As ATBIA does not have any externally imposed capital requirements, no disclosures are required.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

a) SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

This new standard provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. The Company is presently evaluating the impact of this new standard.

b) INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB) on or by January 1, 2011. The Company will adopt all of the International Financial Reporting Standards in accordance with AcSB's plan. 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 ATBF.

NOTE 5 DUE FROM (TO) 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. These amounts are duly recorded, as payables and receivables in each of ATBIS, ATBIM, ATBSI and ATBIA. The amounts due to (from) affiliates are generally settled in the following month are not subject to interest charges. The amounts due (to) from affiliates as at March 31 are as follows:

	($) 2009	2008
Due from (to) ATBIM	$ 5,414	$ 21
Due from (to) ATBSI	13,858	(15,325)
Due from (to) ATBIS	26,046	(5,857)
	$ 45,318	$ (21,161)

NOTE 6 CAPITAL ASSETS

	($)							
		Cost		Accumulated amortization		2009 Net book value		2008 Net book value
Computer software	$	30,266	$	(12,106)	$	18,160	$	-
System development costs		-		-		-		30,266
	$	30,266	$	(12,106)	$	18,160	$	30,266

All completed system development projects are transferred to computer software.

NOTE 7 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses and collects interest revenue on behalf of ATBIA. The amounts due to ATBF as at March 31 arising from these transactions are as follows:

	($)			
		2009		2008
Due to ATBF	$	2,820,939	$	1,397,140

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2009 was 2.50% (2008: 5.25%).

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

	($)			
		2009		2008
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 ATBF, and pays fees to ATBSI and ATBIS. ATBF also charges ATBIA for administrative and selling services, as well as charging interest on amounts owing to ATBF.

The summary of these transactions for the period ended March 31 is as follows:

Related party	Transactions	Recorded as	2009 ($)	2008 ($)
	Revenue			
ATBF	Interest	Interest income	$ 3,271	$ 6,904
	Administrative and selling expenses			
ATBIS/ATBSI	Refferal fees	Referral fees paid to affiliates	$ 182,457	$ 107,171
ATBF	Administrative services	Other expenses	155,700	33,000
ATBF	Administrative services	Other expenses	87,307	74,091
ATBF	Information Technology and Marketing	Other expenses	269,618	77,600
			$ 695,081	$ 291,862
	Interest expense			
ATBF	Interest expense	Interest expense	$ 80,359	$ 51,772

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 party.

NOTE 10 FINANCIAL INSTRUMENTS

ATBIA's financial instruments consist of cash, accounts receivable, due (to) from affiliates, accrued liabilities, variable compensation payable, due to ATBF and deferred variable pay.

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 cash, due (to) from affiliates, accounts receivable, accrued liabilities, variable compensation payable and amounts due to ATBF 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.

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's due to ATBF balance 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.

Note 10 (continued)

As at March 31, 2009, if interest rates were to change by 1%, the change in interest expense is approximately $28,200.

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 and accounts receivable. ATBIA has deposited the cash with reputable financial institutions, from which management believes the risk of loss to be remote. ATBIA also accrues revenues from reputable insurance underwriters, from which management believes the risk of loss to be remote. The Company's maximum credit exposure is $238,167, which is the sum of cash and accounts receivable.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash and cash equivalents available to meet its obligations and whether additional funding is required through its parent company, ATBF.

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 due to affiliates, due to ATBF and the current portion of deferred variable pay.

NOTE 11 EMPLOYEE FUTURE BENEFITS

ATBIA provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Loss. For the year ended March 31, 2009, expenses related to defined contribution provisions were $68,524 (2008: $24,993).

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2009

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, 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 17, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	2009 ($)	2008 ($)
ASSETS		
Current assets		
Cash	$ 1,758,964	$ 2,155,555
Accounts receivable	1,720,555	3,153,554
Prepaid expenses	202,063	21,297
	3,681,582	5,330,406
Capital assets (Note 6)	2,757,624	1,426,084
	$ 6,439,206	$ 6,756,490
LIABILITIES		
Current liabilities		
Accrued liabilities	$ 1,281,382	$ 1,742,472
Due to affiliates (Note 5)	82,935	1,055,397
Due to ATBF (Note 7)	1,209,822	1,107,751
Current portion of deferred variable pay	23,595	9,909
	2,597,734	3,915,529
Deferred variable pay	88,006	54,034
	2,685,740	3,969,563
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	5,000	5,000
Retained earnings	3,748,466	2,781,927
	3,753,466	2,786,927
	$ 6,439,206	$ 6,756,490

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, 2009

	2009 ($)	2008 ($)
Balance - Beginning of period	$ 2,781,927	$ 786,722
Net income for the period	1,966,539	6,995,205
Dividends paid	(1,000,000)	(5,000,000)
Balance - End of period	$ 3,748,466	$ 2,781,927

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

Statement of Operations and Comprehensive Income

For the year ended March 31, 2009

	2009 ($)	2008 ($)
Revenue (Note 9)		
Investment management fees	$ 22,253,145	$ 24,874,451
Other revenue	2,499,866	2,404,629
Interest revenue	49,051	45,142
	24,802,062	27,324,222
Administration and Selling expenses (Note 9)		
Trailing commission	12,270,947	10,560,579
Professional fees	5,218,397	6,045,119
Salaries and employee benefits (Note13)	3,459,225	2,395,533
Other expenses	1,683,923	1,169,817
Amortization expenses	194,174	138,005
Interest expense	8,857	19,964
	22,835,523	20,329,017
Net income and comprehensive income for the period	$ 1,966,539	$ 6,995,205

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

Statement of Cash Flows

For the year ended March 31, 2009

	($)	
Cash provided for (used in)	**2009**	**2008**
Operating activities		
Net income for the period	$ 1,966,539	$ 6,995,205
Items not affecting cash		
Amortization of capital assets	194,174	138,005
	2,160,713	7,133,210
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	1,432,999	(276,335)
(Increase) decrease in prepaid expenses	(180,766)	19,355
(Decrease) increase in accrued liabilities	(461,090)	59,024
Decrease in due to affiliates	(972,462)	(449,519)
Increase in deferred variable pay	47,658	63,943
	2,027,052	6,549,678
Investing activities		
Investment in capital assets	(1,525,714)	(711,312)
Financing activities		
Dividends paid	(1,000,000)	(5,000,000)
Increase in due to ATBF	102,071	168,968
	(897,929)	(4,831,032)
Net change in cash	(396,591)	1,007,334
Cash - Beginning of period	2,155,555	1,148,221
Cash - End of period	$ 1,758,964	$ 2,155,555
Supplementary information		
Interest paid	$ 8,857	$ 19,964
Interest received	$ 49,051	$ 45,142

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 Management Inc. ("ATBIM") is a wholly owned subsidiary of ATB Financial ("ATBF") established to facilitate managing a family of ATBF ("Compass") mutual fund portfolios and providing portfolio management services to high net worth clientele. The continuing operations of ATBIM are dependent upon ATBF's ongoing financial support. ATBIM was incorporated under the Business Corporations Act (Alberta) on August 21, 2002. As a provincial 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 ATBF 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 ATBF.

d) CAPITAL ASSETS

Capital assets are carried at cost less accumulated amortization. Computer software and system development costs are amortized on a straight-line basis over the estimated useful life of between three and five years. Amortization commences in the year the system development is completed.

e) 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 to recognize expenses of $nil (2008: $42,923).

f) 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 is classified as receivables and is initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.
- Accrued liabilities, due to ATBF, due to affiliates, and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

Note 2 (continued)

g) 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) FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

On April 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures and CICA Handbook Section 3863, Financial Instruments – Presentation, replacing CICA Handbook Section 3861. CICA Handbook Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks. CICA Handbook Section 3863 carries forward, unchanged, the presentation requirements of CICA Handbook Section 3861 with respect to financial instruments. These standards harmonize disclosures with International Financial Reporting Standards (see Note 11).

b) CAPITAL DISCLOSURES

On April 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital, including disclosures of any externally imposed capital and consequences on non-compliance (see Note 12).

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

a) SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

This new standard provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. The Company is presently evaluating the impact of this new standard.

b) INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB) on or by January 1, 2011. The Company will adopt all of the International Financial Reporting Standards in accordance with AcSB's plan. 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 ATBF.

NOTE 5 DUE TO 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. These amounts are duly recorded as payable and receivable in the respective accounts of each of ATBIM, 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:

	($) 2009	2008
Due to ATBIS	$ 5,878	$ 365,863
Due to ATBSI	71,644	689,513
Due to ATBIA	5,413	21
	$ 82,935	$ 1,055,397

NOTE 6 CAPITAL ASSETS

($)

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Computer software	$ 984,841	$ (332,179)	$ 652,662	$ 740,953
System development costs	2,104,962	-	2,104,962	685,131
	$ 3,089,803	$ (332,179)	$ 2,757,624	$ 1,426,084

NOTE 7 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses on behalf of ATBIM. The amounts due to ATBF are generally settled in the following month. The amounts due to ATBF arising from these transactions as at March 31 are as follows:

	($) 2009	2008
Due to ATBF	$ 1,209,822	$ 1,107,751

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2009 was 2.50% (2008: 5.25%).

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

	($)	
	2009	**2008**
100 Class A common shares	500	500
Amount	$ 5,000	$ 5,000

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBF charges ATBIM for certain administrative and selling services as well as charging interest on amounts owing to ATBF. 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, ATBF allocates costs for employees of ATBF providing services to ATBIM.

The summary of these transactions is as follows:

Related party	Transactions	Recorded as	($) 2009	2008
	Revenue			
ATBF	Interest income	Interest revenue	$ 49,051	$ 45,142
	Administrative and selling expenses			
ATBIS	Trailer fees	Trailing Commission	$ 4,523,661	$ 4,095,484
ATBSI	Trailer fees	Trailing Commission	7,734,620	6,465,094
ATBF	Administrative Services	Professional fees	80,607	60,841
ATBF	Information technology, rent and marketing	Other expenses	784,961	335,160
ATBSI	Client referral fees	Professional fees	902,426	1,008,739
ATBSI	Transaction fees	Other expenses	358,200	356,820
			$ 14,384,475	$ 12,322,138
	Interest expense			
ATBF	Interest expense on due to ATBF	Interest expense	$ 8,857	$ 19,164
			$ 8,857	$ 19,164

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	*$*
2010	$302,800
2011	288,800
2012	218,800
2013	164,100
	$974,500

NOTE 11 FINANCIAL INSTRUMENTS

ATBIM's financial instruments consist of cash, accounts receivable, accrued liabilities, due to affiliate, due to ATBF and deferred variable pay.

FINANCIAL RISK MANAGEMENT
ATBIM's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIM's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIM's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

FAIR VALUE
The fair value of cash, accounts receivable, accrued liabilities, due to affiliates and due to ATBF 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.

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*: The amount due to ATBF 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, 2009, if rates were to change by 1%, the change in interest expense is approximately $12,100.

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. ATBIM has deposited the cash with a reputable financial institution, from which management believes the risk of loss to be remote. The risk inherent to accounts receivable is effectively mitigated by ATBIM's diverse customer and trading counterparty base.

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 obligation and whether additional funding is required through its parent company, ATBF.

The Company's financial liabilities giving rise to liquidity risk which are considered short-term (due on demand or within 90 days) include accounts receivable, accrued liabilities due to ATBF, due to affiliates and the current portion of deferred variable pay.

NOTE 12 CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital, which is defined as shareholder's equity, are to safeguard ATBIM's ability to operate as a going concern, and to provide financial capacity and flexibility to meet its strategic objectives.

The Company's capital management strategy is to maintain at all times working capital sufficient in size to satisfy ASC's minimum Net Free Capital requirements. The Company has met the minimum Net Free Capital requirement throughout the year.

NOTE 13 EMPLOYEE FUTURE BENEFITS

ATBIM provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Income. For the year ended March 31, 2009, expenses related to defined contribution provisions were $162,210 (2008 - $128,943).

ATB INVESTMENT SERVICES INC.

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Board of Directors of ATB Investment Services Inc.

I have audited the balance sheet of ATB Investment Services Inc. as at March 31, 2009, and the statements of operations and comprehensive loss, deficit, 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 17, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	($) 2009	2008
ASSETS		
Current assets		
Cash	$ 1,422,689	$ 1,904,659
Short term investments	6,207,220	7,131,216
Clients' cash held in trust	3,849,584	4,778,829
Due from affiliates (Note 5)	42,108	131,850
Due from brokers and dealers	1,231,698	-
Due from clients	56,054	25,395
Trailer fees receivable	362,732	399,059
Prepaid expenses	75,114	78,698
	13,247,199	14,449,706
Capital assets (Note 6)	1,397,192	1,357,258
	$ 14,644,391	$ 15,806,964
LIABILITIES		
Current liabilities		
Due to clients	$ 3,155,279	$ 3,620,195
Due to brokers and dealers	1,252,122	990,669
Accrued liabilities	610,240	638,980
Variable compensation payable	510,970	416,733
Due to ATBF (Note 7)	1,033,244	875,654
Due to affiliates (Note 5)	26,046	-
Unearned revenue	323,126	306,914
Current portion of deferred variable pay	69,738	55,489
	6,980,765	6,904,634
Deferred variable pay	124,583	127,983
	7,105,348	7,032,617
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	44,245,000	40,245,000
Deficit	(36,705,957)	(31,470,653)
	7,539,043	8,774,347
	$ 14,644,391	$ 15,806,964

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, 2009

	($) 2009	2008
Balance - Beginning of year	$ 31,470,653	$ 28,488,019
Net loss for the year	5,235,304	2,982,634
Balance - End of year	$ 36,705,957	$ 31,470,653

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2009

	($) 2009	2008
Revenue (Note 9)		
Mutual fund commissions	$ 4,997,728	$ 4,726,250
Other commissions	2,244,722	3,230,692
Other revenue	574,289	503,006
Client referral fees	59,816	59,934
Interest revenue	177,206	216,282
	8,053,761	8,736,164
Administration and Selling expenses (Note 9)		
Salaries and employee benefits (Note 13)	5,901,739	5,037,100
Processing, selling and premises rental	2,989,480	3,177,915
Other expenses	2,037,248	1,759,173
Variable compensation expense	631,597	630,868
Amortization expense	274,066	189,616
Professional expense	1,443,677	908,807
Interest expense	11,258	15,319
	13,289,065	11,718,798
Net loss and comprehensive loss for the year	$ 5,235,304	$ 2,982,634

Statement of Cash Flows

For the year ended March 31, 2009

	($) 2009	2008
Cash Provided for (used in)		
Operating activities		
Net loss for the year	$ (5,235,304)	$ (2,982,634)
Items not affecting cash		
Amortization of capital assets	274,066	189,616
	(4,961,238)	(2,793,018)
Net change in non-cash working capital items		
Decrease in prepaid expenses	3,584	2,359
Cash (paid to) received from clients and brokers/dealers	(536,575)	(35,255)
Decrease in due from affiliates	115,788	483,329
Decrease in trailer fees receivable	36,327	362,758
Increase (decrease) in variable compensation payable	94,237	(441,722)
(Decrease) increase in accrued liabilities	(28,740)	65,641
Increase in unearned revenue	16,212	66,545
Increase in deferred variable pay	10,849	77,134
	(5,249,556)	(2,212,229)
Investing activities		
Decrease (increase) in short term investments	923,996	(4,296,548)
Investment in capital assets	(314,000)	(339,964)
	609,996	(4,636,512)
Financing activities		
Issuance of share capital	4,000,000	6,500,000
Increase in due to ATBF	157,590	684,291
	4,157,590	7,184,291
Net change in cash	(481,970)	335,550
Cash- Beginning of year	1,904,659	1,569,109
Cash - End of year	$ 1,422,689	$ 1,904,659
Supplementary information		
Interest paid	$ 11,258	$ 15,319
Interest received	$ 177,206	$ 216,282

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") is a wholly owned subsidiary of ATB Financial ("ATBF") established for the purpose of distributing mutual funds and Guaranteed Investment Certificates ("GICs") to customers of ATBF. The continuing operations of ATBIS are dependent upon ATBF's ongoing financial support. ATBIS was incorporated in Alberta under the Business Corporations Act (Alberta) on October 3, 1997. As a provincial 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").

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

ATBIS earns revenue from third party clients and affiliates (Note 9) for providing services as a distributor of mutual funds and other investment products. Commission revenue includes revenue earned on mutual fund sales that are recognized on a trade-date basis, trailer fee revenue that is recognized on an accrual basis as these fees are earned and insurance referrals paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate.

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 ATBF to ATBIS based on the average GIC's held on the Company's books. Insurance referral fees are paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate, to ATBIS based on referrals that create 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 ATBF.

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 ATBF. 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) CAPITAL ASSETS

Capital assets are carried at cost less accumulated amortization. Computer software and system development is amortized on a straight-line basis over the estimated useful life of between three and five years. Amortization commences in the year the system development is completed.

g) DUE (TO) FROM CLIENTS AND DUE (TO) 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. These amounts represent client related service fees.

Due (to) from brokers and dealers represents amounts related to trades which have executed but not been settled.

h) 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 subsequent periodic revaluations are 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 ATBF, due to affiliates, and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

i) 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) FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

On April 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures and CICA Handbook Section 3863, Financial Instruments – Presentation, replacing CICA Handbook Section 3861. CICA Handbook Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks. CICA Handbook Section 3863 carries forward, unchanged, the presentation requirements of CICA Handbook Section 3861 with respect to financial instruments. These standards harmonize disclosures with International Financial Reporting Standards (see Note 11).

b) CAPITAL DISCLOSURES

On April 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital, including disclosures of any externally imposed capital and consequences on non-compliance (see Note 12).

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

a) SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

This new standard provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. The Company is presently evaluating the impact of this new standard.

b) INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB) on or by January 1, 2011. The Company will adopt all of the International Financial Reporting Standards in accordance with AcSB's plan. 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 ATBF.

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:

	($) 2009	2008
Due from ATBIM	$ 5,878	$ 34,119
Due from ATBSI	36,230	91,917
Due (to) from ATBIA	(26,046)	5,814
	$ 16,062	$ 131,850

NOTE 6 CAPITAL ASSETS

($)

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Computer software	$ 1,469,550	$ (463,682)	$ 1,005,868	$ 989,225
System development costs	391,324	-	391,324	368,033
	$ 1,860,874	$ (463,682)	$ 1,397,192	$ 1,357,258

NOTE 7 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses and collects certain revenues on behalf of ATBIS. These amounts are duly recorded as payables and receivables in both ATBF's and ATBIS's accounts. The amounts due to and due from ATBF are generally settled in the following month. The amounts due to ATBF arising from these transactions as at March 31 are as follows:

($)

	2009	2008
Due to ATBF	$ 1,033,244	$ 875,654

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2009 was 2.50% (2008: 5.25%).

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

($)

	2009	2008
Class A common shares	$ 44,244,100	$ 40,244,100
Amount	$ 44,245,000	$ 40,245,000

During the year, the Company issued 4,000,000 class A common shares for proceeds of $4,000,000.

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 ATBF, ATBIM and ATBIA. ATBF also charges ATBIS for administrative and selling services, as well as charging interest on amounts owing to ATBF. ATBIS recovers certain administrative, processing and selling costs from ATBF.

The summary of these transactions for the years ended March 31 is as follows:

Related party	Transactions	Recorded as	($) 2009	($) 2008
	Revenue			
ATBIM	Trailer fees	Mutual Fund Commission	$ 4,523,611	$ 4,095,484
ATBIA	Insurance referrals	Client referral fees	59,816	38,073
ATBF	Interest revenue	Interest revenue	1,197	19,733
ATBF	Transaction fees	Other revenue	2,244,722	3,230,692
			$ 6,829,346	$ 7,383,982
	Administration and selling expenses			
ATBF	Processing	Processing, selling and premises rental	$ 3,069,091	$ 3,165,749
ATBF	Selling	Processing, selling and premises rental	145,973	228,236
ATBF	Premises and equipment rental	Processing, selling and premises rental	541,896	497,340
ATBF	Administrative services	Professional Expenses	430,406	321,491
ATBF	Information Technology and Marketing	Other expenses	1,183,123	919,189
			$ 5,370,489	$ 5,132,005
ATBF	Salaries (recoveries)	Processing, selling and premises rental	$ (359,200)	$ (239,551)
ATBF	Processing (recoveries)	Processing, selling and premises rental	(525,583)	(500,697)
ATBF	Training (recoveries)	Professional Expenses	(54,365)	(42,601)
ATBF	Compliance (recoveries)	Administration and selling expenses	(643,357)	(701,284)
ATBIM	Compass service fee recovery	Professional Expenses	(12,690)	(15,165)
			$ (1,595,196)	$ (1,499,298)
	Interest expense			
ATBF	Other interest expense	Interest expense	$ 11,258	$ 15,319

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 through to March, 2010 in the amount of $306,000.

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 clients, trailer fees receivable, due (to) from brokers and dealers, accrued liabilities, variable compensation payable, due to ATBF and deferred variable pay.

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 cash, short term investments, clients' cash held in trust, due (to) from clients, due (to) from brokers and dealers, trailer fees receivable, due (to) from affiliates, accrued liabilities, variable compensation payable and amounts due to ATBF 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.

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's due to ATBF balance is 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, 2009, if interest rates were to change by 1%, the change in interest expense is approximately $10,300.

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, 2009, if interest rates were to change by 1%, the change in interest income is approximately $62,000.

Price *risk:* ATBIS'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
ATBIS is exposed to credit risk through its cash, short term investments, clients' cash held in trust, due from clients, due from brokers and dealers and trailer fees receivable. ATBIS manages credit risks in conjunction with ATBF policies by dealing with ATBF and its affiliated companies, reputable financial institutions, and through a credit underwriting and limit process for clients. ATBIS has deposited the cash with reputable financial institutions, from which management believes the risk of loss to be remote. ATBIS's short term investment (ATB Money Market Fund), invests in high quality money market securities which provides for a stable return. The Company's maximum credit exposure is $9,224,339, which is the sum of cash, short term investments, due from brokers/dealers and trailer fees receivable.

LIQUIDITY RISK
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash and short term investments available to meet its obligations and whether additional funding is required through its parent company, ATBF.

Note 11 (continued)

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 ATBF, due to affiliates and the current portion of deferred variable pay.

NOTE 12 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 ATBF. The Company's capital management strategy is to maintain at all times a risk adjusted capital 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 risk adjusted capital and early warning test requirements throughout the year.

The Company's capital management strategy is to maintain at all times working capital sufficient in size to satisfy the ASC's minimum Net Free Capital requirements. The Company has met the minimum Net Free Capital requirement throughout the year.

NOTE 13 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, 2009, expenses related to defined contribution provisions were $214,564 (2008: $181,716).

ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2009

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Directors of ATB Securities Inc.

I have audited the balance sheet of ATB Secutires Inc as at March 31, 2009, and the statements of operations and comprehensive loss, deficit, 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 audit.

I conducted my audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 17, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	($) 2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 18,191,548	$ 27,254,194
Short term investments	11,000,216	-
Clients' cash held in trust	18,981,578	14,103,871
Due from clients	2,960,481	4,054,743
Due from brokers and dealers	6,437,432	95,521
Client fees receivable	779,990	1,062,214
Trailer fees receivable	932,991	412,360
Due from affiliates (Note 5)	71,644	704,715
Prepaid expenses	160,732	100,107
	59,516,612	47,787,725
Capital assets (Note 6)	2,690,349	2,219,456
	$ 62,206,961	$ 50,007,181
LIABILITIES		
Current liabilities		
Due to clients	$ 39,383,719	$ 34,676,106
Due to brokers and dealers	6,965,670	2,232,099
Accrued liabilities	1,874,848	1,705,841
Variable compensation payable	345,727	311,541
Due to ATBF (Note 7)	1,719,359	1,720,635
Due to affiliates (Note 5)	50,088	91,917
Unearned revenue	46,163	37,712
Current portion of deferred variable pay	68,159	103,711
	50,453,733	40,879,562
Deferred variable pay	121,833	211,519
	50,575,566	41,091,081
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	31,000,000	24,000,000
Deficit	(19,368,605)	(15,083,900)
	11,631,395	8,916,100
	$ 62,206,961	$ 50,007,181

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

Approved by the Board of Directors

Dave Mowat
Chairman of the Board

Michael Frederick
Chief Financial Officer

Statement of Deficit

For the year ended March 31, 2009

	($) 2009	2008
Balance - Beginning of year	$ 15,083,900	$ 14,325,343
Net loss for the year	4,284,705	758,557
Balance - End of year	$ 19,368,605	$ 15,083,900

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

Statement of Operations and Comprehensive Loss

For the year ended March 31, 2009

	($) 2009	2008
Revenue (note 9)		
Mutual fund commissions	11,607,179	10,747,900
Other commissions	2,085,650	2,177,943
Securities commissions	1,083,093	752,906
Client fees	3,700,449	4,443,095
Interest revenue	691,018	1,137,258
Client referral fees	1,383,268	1,434,658
Other revenue	31,972	199,644
	20,582,629	20,893,404
Administration and Selling expenses (note 9)		
Variable compensation expense	8,445,400	8,054,456
Salaries and employee benefits (note 13)	7,508,137	6,131,003
Processing fees	3,054,690	2,869,932
Other expenses	3,510,536	2,782,056
Professional fees	1,855,694	1,545,008
Amortization expense	478,098	244,548
Interest expense	14,779	24,958
	24,867,334	21,651,961
Net loss and comprehensive loss for the year	4,284,705	758,557

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

Statement of Cash Flows

For the year ended March 31, 2009

	($)	
Cash provided from (used in)	**2009**	**2008**
Operating activities		
Net loss for the year	$ (4,284,705)	$ (758,557)
Items not affecting cash		
Amortization of capital assets	478,098	244,548
	(3,806,607)	(514,009)
Net change in non-cash working capital items		
(Increase) in prepaid expenses	(60,625)	(32,632)
Cash (paid to) received from clients and brokers/dealers	(684,172)	4,621,988
Decrease (increase) in client fees receivable	282,224	(90,747)
(Increase) in trailer fees receivable	(520,631)	(38,798)
Net Increase (decrease) in due to/(from) affiliates	591,242	(389,150)
Increase (decrease) in accrued liabilities	169,007	(182,371)
Increase (decrease) in variable compensation payable	34,186	(179,816)
Increase (decrease) in unearned revenue	8,451	(3,513)
(Decrease) increase in deferred variable pay	(125,238)	128,998
	(4,112,163)	3,319,950
Investing activities		
(Increase) in short term investments	(11,000,216)	-
Investment of capital assets	(948,991)	(877,650)
	(11,949,207)	(877,650)
Financing activities		
Issuance of share capital	7,000,000	2,500,000
(Decrease) in due to ATBF	(1,276)	(85,336)
	6,998,724	2,414,664
Net change in cash	(9,062,646)	4,856,964
Cash and cash equivalents - Beginning of year	27,254,194	22,397,230
Cash and cash equivalents - End of year	$ 18,191,548	$ 27,254,194
Represented by		
Cash	$ 18,191,548	$ 27,177,906
Bankers' acceptances	-	76,288
	$ 18,191,548	$ 27,254,194
Supplementary information		
Interest paid	$ 14,779	$ 24,711
Interest received	$ 691,018	$ 860,760

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 Securities Inc. (“ATBSI” or the “Company”) is a wholly owned subsidiary of ATB Financial (“ATBF”) established to facilitate client trading of securities. The continuing operations of ATBSI are dependent upon ATBF’s ongoing financial support. 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 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”).

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

ATBSI earns its revenue from third party clients 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 ATBF to ATBSI based on the average GIC’s held on the Company’s books. Insurance referral fees are paid by ATB Insurance Advisors Inc. (“ATBIA”), an affiliate, to ATBSI based on referrals that create 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 AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit held with ATBF and highly liquid short-term investments with maturity dates of three months or less from the date of acquisition.

d) SHORT TERM INVESTMENTS

Short term investments consist of treasury bills with maturity dates of less than one year.

Note 2 (continued)

e) CLIENT 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) CAPITAL ASSETS

Capital assets are carried at cost less accumulated amortization. Computer software and system development costs are amortized on a straight-line basis over the estimated useful life of between three and five years. Amortization commences in the year the system development is completed.

g) 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.

h) 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.

i) FINANCIAL INSTRUMENTS

ATBSI has made the following designations:

- Cash and cash equivalents, 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, client fees receivable, trailer fees receivable and due from affiliates are classified as loans and receivables and are initially measured at fair value and subsequent periodic revaluations are 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 ATBF, due to affiliates, and deferred variable pay are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

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.

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b) CAPITAL DISCLOSURES

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a) SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

This new standard provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. The Company is presently evaluating the impact of this new standard.

b) INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards, as published by the International Accounting Standards Board (IASB) on or by January 1, 2011. The Company will adopt all of the International Financial Reporting Standards in accordance with AcSB's plan. 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 ATBF.

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:

	($) 2009	2008
Due from ATBIM	$ 71,644	$ 689,390
Due (to) from ATBIA	(13,858)	15,324
Due (to) ATBIS	(36,230)	(91,917)
	$ 21,556	$ 612,797

NOTE 6 CAPITAL ASSETS

($)

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Computer software	$ 2,718,572	$ (729,281)	$ 1,989,290	$ 1,368,810
System development costs	701,059	-	701,059	850,646
	$ 3,419,631	$ (729,281)	$ 2,690,349	$ 2,219,456

NOTE 7 DUE TO ATBF

In the normal course of operations, ATBF pays certain expenses and collects certain revenues on behalf of ATBSI. These amounts are duly recorded as payables and receivables in both ATBF's and ATBSI's accounts. The amounts due to and due from ATBF are generally settled in the following month. The amounts due to ATBF arising from these transactions as at March 31 are as follows:

($)

	2009	2008
Due to ATBF	$ 1,719,359	$ 1,720,635

The net amount due to ATBF is subject to interest charges at ATBF's prime lending rate. The prime lending rate at March 31, 2009 was 2.50% (2008: 5.25%).

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

($)

	2009	2008
Class A common shares	30,995,100	23,995,100
Amount	$ 31,000,000	$ 24,000,000

During the year, the Company issued 7,000,000 class A common shares for proceeds of $7,000,000.

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 ATBF, ATBIA and ATBIM. ATBF also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATBF. A summary of these transactions is as follows:

			($)	
Related party	**Transactions**	**Recorded as**	**2009**	**2008**
	Revenue			
ATBIM	Trailer fees	Mutual fund commissions	$ 7,731,209	$ 6,465,094
ATBIM	Referral fees	Client referral fees	902,426	1,008,739
ATBIM	Transaction fees	Client referral fees	358,200	356,820
ATBIA	Insurance referrals	Client referral fees	122,641	69,099
ATBF	GIC referral fees	Other commissions	2,085,650	2,177,943
ATBF	Interest income	Interest revenue	489,617	860,760
			$ 11,689,743	$ 10,938,455
	Administration and selling expenses (recoveries)			
ATBF	Processing	Processing fees	$ 3,054,690	$ 2,869,932
ATBF	Information technology, rent and marketing	Other expenses	1,732,804	1,225,659
ATBF	Employee services	Professional fees	579,341	420,957
			$ 5,366,835	$ 4,516,548
ATBIM	Compass service fee recovery	Professional fees	$ (12,960)	$ (12,375)
			$ (12,960)	$ (12,375)
	Interest expense			
ATBF	Other interest expense	Interest expense	$ 14,779	$ 25,856
			$ 14,779	$ 25,856

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 through to March, 2010 in the amount of $631,800.

NOTE 11 FINANCIAL INSTRUMENTS

ATBSI's financial instruments consist of cash and cash equivalents, short term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATBF, due to affiliates, and deferred variable pay.

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, due (to) from affiliates, accrued liabilities, variable compensation payable and amounts due to ATBF approximate the carrying value due to the short-term nature of these instruments. The fair value of deferred variable pay is not materially different from its carrying value.

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, 2009, US dollar denominated cash amounted to US$1,952,099, due from clients amounted to US$166,456, accrued liabilities amounted to US$10,867, due to clients amounted to US$1,744,151 and due to brokers and dealers and mutual funds amounted to US$197,081. A $0.01 change in US exchange rates would result in a foreign exchange gain or loss of approximately $1,700.

Interest *rate risk*: The amount due to ATBF is subject to interest rate fluctuations and the degree of volatility in these rates. As at March 31, 2009 ATBSI held $11,000,216 in highly liquid T-bills. At March 31, 2009 the T-bills were earning a yield of 0.37% until they mature on April 16, 2009.

As at March 31, 2009, if interest rates were to change by 25bps, the change in interest income is approximately $27,500.

Price *risk*: ATBSI's exposure to financial market pricing risk is limited since there are no significant financial instruments held by the Company, which will fluctuate as a result of changes in market prices.

CREDIT RISK
ATBSI is exposed to credit risk through its cash and cash equivalents, short term investments, due from clients, due from brokers and dealers, client fees receivable and trailer fees receivable. ATBSI has cash deposits held with reputable financial institutions and its parent company, ATBF, an Alberta Crown Agent, from which management believes the risk of loss to be remote.

Short term investments consist of T-bill holdings. The risk inherent to 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 $36,894,100, which is the sum of cash and cash equivalents, short term investments, due from brokers/dealers and trailer fees receivable.

LIQUIDITY RISK
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash and cash equivalents available to meet its obligation and whether additional funding is required through its parent company, ATBF.

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 ATBF, due to affiliates and the current portion of deferred variable pay.

NOTE 12 CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBSI's ability to operate as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives; and
- To maintain adequate risk adjusted capital as required by IIROC.

Note 12 (continued)

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 ATBF. The Company's capital management strategy is to maintain at all times a risk adjusted capital 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 risk adjusted capital requirement throughout the year, except at March 31, 2009, at which time the Company triggered early warning level one category. The Company deposits its operating cash and non-registered client cash in bank accounts with it's shareholder ATBF, which may result in concentration risk from a regulatory perspective. The Company triggered the provider of capital concentration charge at March 31, 2009, by virtue of its financial statement capital having exceeded the regulatory exposure threshold of $10 million, resulting in a $1.6 million reduction in risk adjusted capital. This resulted in certain restrictions in activities that might further reduce risk adjusted capital until IIROC designates that ATBSI is no longer in the early warning category and rescinds the restrictions. It is the Company's intention to seek exemption from this IIROC rule based on the fact that accounts held at ATBF are guaranteed by the Province of Alberta.

On May 27, 2009, IIROC has removed ATBSI's designation in the early warning category and rescinded the restrictions placed on the Company.

NOTE 13 EMPLOYEE FUTURE BENEFITS

ATBSI provides future benefits to current 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, 2009, expenses related to the defined contribution plan provision was $906,262 (2008: $747,274).

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Year Ended December 31, 2008

AUDITOR'S REPORT

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 2008 and the statements of income and equity, comprehensive income and accumulated other comprehensive 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 audit.

I conducted my audit 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
March 9, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

December 31, 2008

	($ thousands) 2008	2007
Assets		
Cash	$ 21,952	$ 16,005
Investments (Note 3)	120,558	116,164
Accrued interest receivable	766	792
Income taxes receivable	204	120
Due from credit unions	4,277	3,956
Prepaids	37	867
Future income taxes recovery	-	186
Property and equipment (Note 4)	259	202
	$ 148,053	$ 138,292
Liabilities		
Accounts payable and accrued liabilities	$ 761	$ 1,230
Accrual for financial assistance (Note 5)	1,800	1,000
Deferred revenue	60	1,465
Future income taxes liability	561	-
Special contribution payable (Note 6)	16,700	15,008
Long-term unclaimed credit union balances	744	716
	20,626	19,419
Commitments and contingencies (Note 7)		
Equity		
Deposit Guarantee Fund (Note 10)	125,269	118,426
Master Bond Fund (Note 8)	-	1,378
Accumulated Other Comprehensive Income	2,158	(931)
	127,427	118,873
	$ 148,053	$ 138,292

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 Year ended December 31, 2008

	($ thousands)		
	2008 Budget	**2008 Actual**	**2007 Actual**
	(Note 12)		
Deposit Guarantee Fund			
Revenues:			
Deposit guarantee assessments	$ 24,159	$ 25,027	$ 22,062
Investment income	6,002	4,774	5,415
	30,161	29,801	27,477
Expenses:			
Provision for (recovery of) financial assistance (Note 5)	500	782	(410)
Special contribution (Note 6)	16,348	16,700	15,008
Administration expenses (Schedule 1)	6,038	5,568	5,111
	22,886	23,050	19,709
Income from continuing operations before income taxes	7,275	6,751	7,768
Income taxes (Note 9)	2	(92)	58
Net income from continuing operations for the year	7,273	6,843	7,710
Net income (loss) from discontinued operations (Note 8)	105	485	(413)
Equity at beginning of year	120,155	119,804	112,507
Equity distribution, discontinued operations (Note 8)	-	(1,863)	-
Equity at end of year	$ 127,533	$ 125,269	$ 119,804

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

Statements of Comprehensive Income and Accumulated Other Comprehensive Income

For the Year ended December 31, 2008

($ thousands)

	2008 Budget	2008 Actual	2007 Actual
	(Note 12)		
Net income			
Deposit Guarantee Fund	$ 7,272	$ 6,843	$ 7,710
Discontinued Operations (Note 8)	105	485	(413)
	7,377	7,328	7,297
Other comprehensive income (loss), net of tax			
Unrealized gains (losses) on available-for-sale financial instruments net of future income tax of $701 (2007: recovery $172)	-	2,830	(987)
Reclassification to net income net of future income tax of $69 (2007: recovery $ 8)	-	259	(49)
	-	3,089	(1,036)
Comprehensive income	$ 7,377	$ 10,417	$ 6,261
Accumulated other comprehensive income at beginning of year	$ -	$ (931)	$ -
January 1, 2007 transition adjustment net of income tax of $19	-	-	105
Other comprehensive income (loss), net of future income tax of $770 (2007: recovery $180)	-	3,089	(1,036)
Accumulated other comprehensive income at end of year	$ -	$ 2,158	$ (931)

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

Statement of Cash Flows

For the Year Ending December 31, 2008

	2008 Budget (Note 12)	2008 Actual	2007 Actual
	($ thousands)		
Operating activities:			
Assessments received	$ 23,986	$ 24,706	$ 21,508
Investment income received	6,000	4,801	5,559
Financial assistance (paid) recovered	(500)	18	10
Interest and bank charges paid	(13)	(9)	(16)
Income taxes paid (recovered)	(282)	22	70
Paid to suppliers and employees	(5,402)	(5,322)	(3,932)
Special contribution paid	(13,761)	(15,008)	(12,982)
Cash flow from continuing operating activities	10,028	9,208	10,217
Cash flows from (to) discontinued operating activities (Note 8)	103	(655)	(1,031)
Cash flows from operating activities	10,131	8,553	9,186
Investing activities:			
Purchase of investments, net	(9,620)	(571)	(6,834)
Purchase of property and equipment	(511)	(172)	(111)
Cash flows used in investing activities	(10,131)	(743)	(6,945)
Financing activities:			
Distribution of Master Bond Fund (Note 8)	-	(1,863)	-
Cash flows used in financing activities	-	(1,863)	-
Cash inflow	-	5,947	2,241
Cash at beginning of year	13,005	16,005	13,764
Cash at end of year	$ 13,005	$ 21,952	$ 16,005

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

Notes to the Financial Statements

December 31, 2008

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, 2008, credit unions in Alberta held deposits including accrued interest totaling $15,102,948,000 (2007: $13,337,427,000).

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, 2008, securities held in the CCITF have a rate of return of 3.53% per annum (2007: 4.48% 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 revenue 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 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.

Additionally, 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.

Held-for-trading

The Corporation has classified cash resources as "held-for-trading" (or "HFT"). Financial assets and liabilities classified as HFT are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) recorded in "net income" in the Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as investment income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

Note 2 (continued)

Available-for-sale

The Corporation has 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.

Embedded derivatives

The Corporation has reviewed contracts and identified no embedded derivatives within contracts.

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 settlement date basis.

Note 2 (continued)

i) Changes in accounting policies

Effective January 1, 2008, the Corporation adopted the requirements of three new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook, namely Section 1535, Capital Disclosures, Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. The new requirements are for disclosure only and did not impact financial results for the Corporation.

Capital Disclosures: Section 1535 requires the Corporation to disclose certain qualitative and quantitative information regarding objectives, policies, and processes for the management of capital, as well as compliance with externally imposed capital requirements.

Financial Instruments - Disclosures and Presentation: Sections 3862 and 3863 replace Section 3861 and 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 3 of these financial statements.

j) FUTURE CHANGE IN ACCOUNTING POLICY

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the basis for financial reporting by Canadian publicly accountable enterprises will move from Canadian generally accepted accounting principles ("GAAP") to International Financial Reporting Standards ("IFRS") 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 compliance with IFRS. 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 begun an analysis of the expected areas of impact on the Corporation. The Corporation expects to have completed the development of our detailed implementation plan by the third quarter of 2009. 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 this IFRS initiative.

NOTE 3 INVESTMENTS

The Corporation has classified all investments, including pooled funds, as available for sale. Investments so classified are measured on the Balance Sheet at fair value.

a) FAIR VALUE

The fair value of financial instruments of the Corporation are summarized below:

	($ thousands)			
	2008		**2007**	
	Fair Value [1]	**Cost**	**Fair Value [1]**	**Cost**
Directly held:				
Securities issued or guaranteed by:				
Canada	37,738	34,666	38,108	37,787
Provinces	24,021	22,924	24,354	24,204
Financial institutions	14,840	14,578	13,811	14,096
Asset backed securities and other [2]	20,252	20,914	20,091	20,982
Pooled Funds:				
Universal Fixed Income Pool	23,707	24,746	19,800	20,186
Total	120,558	117,828	116,164	117,255

Note 3 (continued)

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, 2008, securities directly held (excludes the Universal Fixed Income Pool) have an average effective yield of 3.36% based on fair value (2007: 4.52%). These securities have the following term structure: under one year: 2% (2007: 6%); over one year and under five years: 45% (2007: 40%); over five years and under ten years: 53% (2007: 54%).

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, 2008, securities held by the Pool have an average effective market yield of 6.0% per annum (2007: 5.7% per annum) and the following term structure based on principal amount: under 1 year: 5% (2007: 6%); 1 to 5 years: 34% (2007: 32%); 5 to 10 years: 29% (2007: 33%); 10 to 20 years: 15% (2007: 12%); and over 20 years: 17% (2007: 17%).

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 $37,022,000 (2007: $43,364,000) and a net fair value of $(600,000) (2007: $157,000). 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) INVESTMENT INCOME

Investment income is as follows:

	($ thousands) 2008	2007
Interest and dividend income	$ 5,613	$ 5,308
Net gain on sale of investments	233	$ 57
Write down on investments	(562)	-
Derivative income	(510)	50
Total	$ 4,774	$ 5,415

Note 3 (continued)

c) 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 management is responsible for monitoring performance, recommending changes to the 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 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 Corporations 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 Corporations 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 marketable 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 Corporations 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 1 percent in interest rates will result in a decrease of $5,660,000 (2007: $5,770,000) in the fair value of total investments, whereas, a decrease of 1 percent in interest rates will result in an increase in the fair value of the same amount.

NOTE 4 PROPERTY AND EQUIPMENT

($ thousands)

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 417	$ 319	$ 98	$ 79
Computer equipment	186	147	39	40
Leasehold improvements	220	178	42	54
Computer software	440	360	80	29
Total	$ 1,263	$ 1,004	$ 259	$ 202

NOTE 5 ACCRUAL FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1, 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)			
		2008		2007
Accrual for financial assistance:				
Balance at beginning of year	$	1,000	$	1,400
Change in accrual for financial assistance		800		(400)
Balance at end of year	$	1,800	$	1,000
Provision for (recovery of) financial assistance:				
Change in accrual for financial assistance	$	800	$	(400)
Financial assistance payments		-		2
Loan loss recoveries		(18)		(12)
Provision for (recovery of) financial assistance	$	782	$	(410)

NOTE 6 SPECIAL CONTRIBUTION PAYABLE

	($ thousands)			
		2008		2007
Balance at beginning of year	$	15,008	$	12,982
Payment of previous year's special contribution		(15,008)		(12,982)
Special contribution for the year		16,700		15,008
Balance at end of year	$	16,700	$	15,008

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 $259,000 (2007: $371,000).

The following amounts represent minimum payments over the next three years:

2009	119,000
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:

	($ thousands)	
	2008	**2007**
Revenues:		
Insurance assessments	$ 1,299	$ 1,294
Investment income	73	103
	1,372	1,397
Expenses:		
Insurance premiums	921	883
Administration expenses (Schedule 1)	100	120
Insurance claims	(134)	807
	887	1,810
Net income (loss) from discontinued operations	485	(413)
Equity at beginning of year	1,378	1,791
Equity distribution	(1,863)	-
Equity at end of year	$ -	$ 1,378

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% (2007: 14.44%). 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)	
	2008	2007
Expected income tax expense on pre-tax net income at the statutory rate	$ 1,418	$ 1,122
Add (deduct) tax effect of:		
Non-taxable assessments	(5,256)	(3,186)
Non-deductible special contribution	3,507	2,167
Non-taxable provision for financial assistance	164	(59)
Other	75	14
Income taxes (recovered) paid	$ (92)	$ 58

At December 31, 2008 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $58,000 (2007: $173,000). The resulting future income taxes recoverable are reflected in the balance sheet. The Corporation's future effective income tax rate is 21.00% (2007: $14.44%).

	($ thousands)	
	2008	2007
Current income taxes	$ (105)	$ 48
Future income taxes	13	10
Income taxes (recovered) paid	$ (92)	$ 58

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, 2008 is 0.84% 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)				
	2008				2007
	Director's Fees or Salary [1]	Other Cash Benefits [2]	Other Non Cash Benefits [4]	Total	Total
Chair [5,6]	$ 24	$ -	$ -	$ 24	$ 17
Board Members [5,6]	112	-	-	112	103
Current senior management:					
President and Chief Executive Officer [8]	246	111	41	398	264
Vice President, Finance and Administration [3]	176	99	26	301	224
Vice President, Credit and Risk Management	174	49	23	246	196
Vice President, Strategic Planning and Information Services	156	42	22	220	148
Assistant Vice President, Credit [7]	101	10	15	126	119

1 Salary includes regular base pay.

2 Other cash benefits include bonus and perquisite amounts.

3 Other cash benefits include the payout of accumulated vacation of $51,328.

4 Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.

5 The Chair receives a $10,000 annual retainer. The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance and Enterprise is a Board Member but receives no remuneration from the Corporation.

6 The minimum and maximum amounts paid to directors was $2,000 (2007: $13,000) and $24,000 (2007: $22,000) respectively. The average amount paid to directors was $14,000 (2007: $17,000).

7 Amounts presented are an average as the position is held by two individuals.

8 The 2007 amount reflects the salary of two individuals for ten months.

NOTE 12 2008 BUDGET

The 2008 budget was approved by the Board of Directors on September 24, 2007.

NOTE 13 COMPARATIVE FIGURES

The 2007 figures have been reclassified where necessary to conform to 2008 presentation.

SCHEDULE OF ADMINISTRATION EXPENSES

Schedule 1

For the Year ending December 31, 2008

	($ thousands)		
	2008 Budget	**2008 Actual**	**2007 Actual**
Deposit Guarantee Fund			
Salaries and benefits	4,338	4,272	3,791
Professional fees	325	338	262
Rental charges	214	200	212
Office	193	197	165
Other	431	189	325
Staff travel	204	176	151
Board and committee fees	109	136	119
Amortization	275	115	166
Board and committee expenses	69	45	40
	6,158	5,668	5,231
Allocation to Master Bond Fund (Note 8)	(120)	(100)	(120)
	6,038	5,568	5,111

N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Shareholder of N.A. Properties (1994) Ltd.

I have audited the balance sheet of N.A. Properties (1994) Ltd. as at March 31, 2009 and the statement of operations, and deficit 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 audit.

I conducted my audit 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, 2009 and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Balance Sheet

As at March 31, 2009

	($ thousands) 2009	2008
Assets		
Cash (Note 4)	$ 2,867	$ 2,782
Note receivable (Note 5)	29	24
	$ 2,896	$ 2,806
Liabilities		
Obligations under indemnities and commitments (Note 6)	$ 625	$ 720
Shareholder's Equity		
Share capital (Note 7)	5,769	5,769
Deficit	(3,498)	(3,683)
	2,271	2,086
	$ 2,896	$ 2,806

The accompanying notes are part of these financial statements.

On Behalf of the Board:

Rod Matheson________________
Sole Director

Statement of Operations and Deficit

For the year ended March 31, 2009

	($ thousands) 2009	2008
Revenue		
Interest and other	$ 90	$ 122
Expense		
General and administrative	-	3
Operating income before provision	90	119
Recovery of (provision for) obligations under indemnities and commitments (Note 6)	95	81
Excess (deficiency) of revenue over expense for the year	185	200
Deficit, beginning of year	(3,683)	(3,883)
Deficit, end of year	$ (3,498)	$ (3,683)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2009

($ 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, 2009, securities held by the Fund have a time-weighted return of 3.0% per annum (March 31, 2008: 4.5% 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, 2009 is $29 (2008: $24). 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, 2009 is estimated to be $87 (2008: $72) 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 $1,307 at March 31, 2009 (2008: $1,564). 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)	
	2009	**2008**
Beginning balance	$ 720	$ 801
(Recovery of) provision for obligations under indemnities and commitments	(95)	(81)
Ending balance	$ 625	$ 720

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)	
		2008	2007
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, 2009.

NOTE 10 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2009 and 2008.

NOTE 11 BUDGET

The Company's annual budget appears in the 2008-09 Government and Lottery Fund Estimates. The budget projected a net excess of revenue over expenses for the year of $180. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

GAINERS INC.

Consolidated Financial Statements

Year Ended September 30, 2008

AUDITOR'S REPORT

To the Shareholder of Gainers

I have audited the consolidated balance sheet of the Gainers Inc. as at September 30, 2008 and the consolidated statement of operations and deficit 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 audit.

I conducted my audit 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 September 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Consolidated Balance Sheet

	($ thousands) 2008	2007
Assets		
Cash	$ 2	$ 2
Investment in and amount due from former affiliate (Note 2)	-	-
	$ 2	$ 2
Liabilities		
Accounts payable and accrued liabilities	$ 27	$ 113
Principal and interest on prior years income taxes (Note 3)	11,334	11,334
Long-term debt (Note 4)	193,037	192,947
	204,398	204,394
Shareholder's Deficiency		
Share capital (Note 6)	1	1
Deficit	(204,397)	(204,393)
	(204,396)	(204,392)
	$ 2	$ 2

Approved by the Board of Directors

Dan Harrington, Director

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Operations and Deficit

	($ thousands)	
	2008	**2007**
Expenses		
Interest on prior years' income taxes	$ -	$ -
General and administrative	4	4
Net loss for the year	(4)	(4)
Deficit, beginning of year	(204,393)	(204,389)
Deficit, end of year	$ (204,397)	$ (204,393)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	($ thousands)	
	2008	**2007**
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (4)	$ (4)
Net change in non-cash working capital items	(86)	(38)
	(90)	(42)
Financing activities		
Proceeds from long-term debt	90	44
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

September 30, 2008

(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, nor does Management expect the counterclaim of Mr. Pocklington to be pursued by him.

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 $45. These non-capital losses expire between 2009 and 2028.

NOTE 4 LONG-TERM DEBT

	($ thousands) 2008	2007
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	13,738	13,648
Accrued interest	34,491	34,491
	$ 193,037	$ 192,947

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, 2008 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.

Mr. Pocklington has brought a counterclaim against the company in which Mr. Pocklington claims indemnification for the entire amount of the main claim.

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)	
	2008	**2007**
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

Supplementary Information

- Statement of Remissions, Compromises and Write-Offs
- Statement of Borrowings Made under Section 56(1) of the *Finance 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

STATEMENT OF REMISSIONS, COMPROMISES AND WRITE-OFFS

For the year ended March 31, 2009

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all write-offs of the Ministry of Finance and Enterprise made or approved during the fiscal year. There are no remissions or compromises to report.

WRITE-OFFS	
Department of Finance	
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	$ 76,326
Accounts and interest receivable	
Corporate income tax	3,626,350
	3,702,676
Alberta Treasury Branches	
Loans and accounts receivable	16,350,000
	$ 20,052,676

STATEMENT OF BORROWINGS MADE UNDER SECTION 56(1) OF THE FINANCIAL ADMINISTRATION ACT

For the year ended March 31, 2009

The following has been prepared pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 6,647,000,000	$ 6,641,814,611
Debentures	259,294,000	259,294,000
	$ 6,906,294,000	$ 6,901,108,611
Debentures	-	-
Promissory Notes	-	-
	$ -	$ -

STATEMENT OF THE AMOUNT OF DEBT OF THE CROWN FOR WHICH SECURITIES WERE PLEDGED

For the Year Ended March 31, 2009

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 2008-09 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, 2009

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, 2009, 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	$ 76,326	$ -
Feeder Association payments recoverable from the Department of Agriculture, Food and Rural Development	-	-
	76,326	-
CROWN INDEMNITIES		
Native residential school litigation indemnity payments recoverable from the Department of Education	1,407	1,407
Indemnity under the senior funding facility established under the Montreal Accord	-	-
	$ 77,733	$ 1,407

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise and the Local Authorities Pension Plan Board of Trustees

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Local Authorities Pension Plan as at December 31, 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended. 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 audit.

I conducted my audit 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, 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Fred J. Dunn, FCA]
Auditor General

Edmonton, Alberta
March 27, 2009

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2008

	($ thousands) 2008	2007
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 13,493,066	$ 15,566,024
Contributions receivable (Note 6)	41,467	34,114
Accrued investment income and accounts receivable	1,767	2,110
	13,536,300	15,602,248
Liabilities		
Accounts payable	19,071	14,382
Net assets available for benefits	13,517,229	15,587,866
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	17,931,200	16,771,200
Deficiency	$ (4,413,971)	$ (1,183,334)

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

Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 2008

	($ thousands) 2008	2007
Increase in assets		
Contributions (Note 8)	$ 1,070,727	$ 929,571
Net investment (loss) income (Note 9)		
Investment (loss) income	(2,312,034)	750,942
Investment expenses	(66,479)	(57,616)
	(2,378,513)	693,326
	(1,307,786)	1,622,897
Decrease in assets		
Pension benefits	524,557	466,880
Refunds to members	195,933	187,637
Transfers to other plans	21,216	8,178
Member service expenses (Note 10)	21,145	17,385
	762,851	680,080
(Decrease) Increase in net assets	(2,070,637)	942,817
Net assets available for benefits at beginning of year	15,587,866	14,645,049
Net assets available for benefits at end of year	$ 13,517,229	$ 15,587,866

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

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2008

	($ thousands) 2008	2007
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 1,171,400	$ 1,073,000
Benefits earned	909,400	725,200
Net experience losses (Note 7(b))	110,900	125,400
	2,191,700	1,923,600
Decrease in liability for accrued benefits		
Benefits paid including interest	742,400	667,300
Net decrease (increase) due to actuarial assumption changes (Note 7(a))	289,300	(123,200)
	1,031,700	544,100
Net increase in liability for accrued benefits	1,160,000	1,379,500
Liability for accrued benefits at beginning of year	16,771,200	15,391,700
Liability for accrued benefits at end of year (Note 7)	$ 17,931,200	$ 16,771,200

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

Statement of Changes in Deficiency

For the year ended December 31, 2008

	($ thousands)	
	2008	**2007**
Deficiency at beginning of year	$ (1,183,334)	$ (746,651)
(Decrease) Increase in net assets available for benefits	(2,070,637)	942,817
Net increase in liability for accrued benefits	(1,160,000)	(1,379,500)
Deficiency at end of year (Note 12)	$ (4,413,971)	$ (1,183,334)

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

Notes to the Financial Statements

December 31, 2008
(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*, Chapter P-41, Revised Statutes of Alberta 2000 and 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, regional health authorities, 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 a Board of Trustees.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 12) are funded by employers and employees at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2008 were 6.75% (2007 6.75%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.64% (2007 9.64%) of the excess for employees, and 7.75% (2007 7.75%) of pensionable earnings up to the YMPE and 10.64% (2007 10.64%) 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 federal *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, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may receive the commuted value for all years of membership, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest. These payments are included as Refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Note 1 (continued)

g) OPTIONAL SERVICE AND RECIPROCAL TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

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. 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 to determine the fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and 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.

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.

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

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

c) INCOME RECOGNITION

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

d) FOREIGN EXCHANGE

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

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of 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 then extrapolated to year-end. It 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 valuation 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 E)

	2008		2007	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Risk Matching				
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 223,908	1.7	$ 330,358	2.1
Canadian Long Term Government Bond Pool (b)	3,024,427	22.4	3,207,047	20.6
Universe Fixed income Pool (b)	377,473	2.8	625,025	4.0
Real rate of return bonds (c)	721,456	5.4	776,295	5.0
Private Mortgage Pool (d)	704,268	5.2	626,156	4.0
Currency Alpha Pool (e)	31,315	0.2	20,253	0.1
Fixed Income Overlay Strategy Pool (f)	(336,834)	(2.5)	-	-
Tactical Asset Allocation Pool	9,896	0.1	24,034	0.1
	4,755,909	**35.3**	**5,609,168**	**35.9**
Private Income Pools (g)	478,221	3.5	374,054	2.4
	5,234,130	**38.8**	**5,983,222**	**38.3**
Short Horizon				
Canadian Equities (Schedule B)				
Canadian Large Cap Equity Pool (h)	868,910	6.4	1,251,085	8.0
Canadian Small Cap Equity Pool (h)	432,457	3.2	598,763	3.9
Canadian Equity Enhanced Index Pool (i)	567,588	4.2	737,260	4.7
Private Equity Pool	-	-	8,392	0.1
Canadian Overlay Strategy Pool (f)	132,480	1.0	-	-
	2,001,435	**14.8**	**2,595,500**	**16.7**
United States Equities (Schedule C)				
U.S. Structured Equity Pool (j)	118,550	0.9	464,019	3.0
U.S. Small/Mid Cap Equity Pool (k)	535,927	4.0	644,193	4.1
Portable Alpha U.S. Equity Pool (l)	462,527	3.4	458,594	3.0
U.S. Overlay Strategy Pool (f)	40,879	0.3	-	-
	1,157,883	**8.6**	**1,566,806**	**10.1**
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (m)	1,817,459	13.5	2,277,375	14.6
Emerging Markets Equity Pool (n)	56,503	0.4	-	-
EAFE Structured Equity Pool (o)	206,992	1.5	103,844	0.7
Structured Transition Pool (p)	7,699	0.1	273,186	1.8
EAFE Overlay Strategy Pool (f)	255,517	1.9	-	-
	2,344,170	**17.4**	**2,654,405**	**17.1**
Absolute Return Strategy Pool (q)	557,517	4.1	702,939	4.5
	6,061,005	**44.9**	**7,519,650**	**48.4**
Long Horizon				
Private Real Estate Pool (r) (Schedule E)	1,634,272	12.1	1,605,600	10.3
Private equities (s)	491,699	3.7	385,825	2.5
Timberland Pool (t)	71,960	0.5	71,727	0.5
	2,197,931	**16.3**	**2,063,152**	**13.3**
Total investments	**$ 13,493,066**	**100.0**	**$ 15,566,024**	**100.0**

Note 3 (continued)

The Plan's investments are classified into three broad categories which include risk matching, short and long horizon investments. Risk matching assets contain predictable cash flows to better match liability flows. Short horizon investments focuses on value-added returns against benchmarks over short time horizons. Long horizon investments include less liquid assets that produce expected returns with high risk premiums.

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 high quality 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 high quality fixed income instruments of the federal, provincial and municipal governments of Canada while the UFIP portfolio is comprised of high quality 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 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 high-quality 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, EAFE equities, major foreign currencies and styles and sectors. At December 31, 2008, 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) 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.

h) The Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

i) The Canadian Equity Enhanced Index Pool consists of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

j) The U.S. Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication through futures, swaps and structured investments to obtain exposure to the benchmark. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 (continued)

k) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities actively managed by an external manager with expertise in the U.S. small/mid cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period while reducing return volatility.

l) The Portable Alpha U.S. Equity Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 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. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

m) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

n) 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.

o) The EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

p) The Structured Transition Pool provides exposure to non-North American markets through the use of structured investments such as foreign equity index swaps.

q) The Absolute Return Strategy Pool is managed with the objective of providing investment returns comparable to the HFRX Global Investable Index. The pool is intended to yield absolute positive investment returns with lower volatility using various investment strategies.

r) 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.

s) 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.

t) The Timberland Pool provides high current income and long investment horizons. The timberland investment is 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. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a long-term policy asset mix of 38.5% risk matching, 44.5% short horizon and 17.0% long horizons.

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.

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.

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, 2008:

	2008					2007	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)		($ thousands)	
Forward foreign exchange contracts	100	-	-	$ 1,891,040	$ (129,664)	$ 1,911,124	$ 11,948
Equity index swap contracts	87	13	-	1,090,828	30,486	1,117,064	(18,648)
Futures contracts	100	-	-	586,003	69,137	396,514	12,457
Credit default swap contracts	5	44	51	530,257	(10,193)	670,734	(2,018)
Interest rate swap contracts	13	50	37	172,748	(4,471)	401,881	(1,763)
Cross-currency interest rate swaps	17	61	22	118,650	(9,326)	233,334	10,228
Bond index swap contracts	100	-	-	25,699	676	542,766	4,044
Swap option contracts	-	-	-	-	-	357,769	68
				$ 4,415,225	$ (53,355)	$ 5,631,186	$ 16,316

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)	
	2008	2007
Employers	$ 21,928	$ 18,057
Employees	19,539	16,057
	$ 41,467	$ 34,114

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2008 as at the opening of the year by Mercer (Canada) Limited and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $17,931,200 (2007: $16,771,200) 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.

Note 7 (continued)

The actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate and salary escalation rate assumptions for the accounting extrapolation differ from those assumptions previously established for funding.

The major assumptions used for accounting purposes were:

	2007 Valuation and 2008 Extrapolation	2006 Valuation and 2007 Extrapolation
	%	
Investment rate of return	6.30	6.55
Inflation rate		
Next 2 years	2.25	4.75
Thereafter	2.25	2.75
Salary escalation rate*		
Next 2 years	5.50	5.50
Thereafter	3.50	3.50

* In addition to merit and promotion.

The Board of Trustees' 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, 2008 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 2009.

b) NET EXPERIENCE LOSSES

Experience losses of $110,900 (2007: $125,400) arose from differences between the actuarial assumptions used in the valuation and actual results as follows:

	($ thousands) 2008	2007
Net experience losses		
Combined salary, YMPE increases and indexation were other than assumed	$ 20,900	$ 83,100
Retirement, termination, disability and mortality experiences were less favorable than assumed	72,100	13,500
Cost-of-living increase in pension benefit payments was other than expected, prior service data and other changes	17,900	28,800
	$ 110,900	$ 125,400

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably 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, 2008:

	($ 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	1,212,200	0.8
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	814,400	1.2
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	2,879,100	3.4

* The current service cost as a % of pensionable earnings as determined by the December 31, 2008 extrapolation was 13.31%.

NOTE 8 CONTRIBUTIONS

	($ thousands)	
	2008	**2007**
Current and optional service		
Employers	$ 544,796	$ 475,593
Employees (a)	503,928	437,352
Transfers from other plans	22,003	16,626
	$ 1,070,727	$ 929,571

a) Includes $18,669 (2007: $16,697) of optional service contributions.

NOTE 9 NET INVESTMENT (LOSS) INCOME

a) INVESTMENT (LOSS) INCOME

Net investment (loss) income is comprised of the following:

	($ thousands)	
	2008	**2007**
Investment (loss) income		
Net realized and unrealized (loss) gain on investments, including those arising from derivative transactions	$ (2,882,425)	$ 222,422
Interest income	279,671	293,889
Dividend income	200,642	160,794
Real estate income	75,595	66,254
Securities lending income	14,483	7,583
	(2,312,034)	750,942
Investment expenses	(66,479)	(57,616)
Net investment (loss) income	$ (2,378,513)	$ 693,326

Note 9 (continued)

The following is a summary of the Plan's proportionate share of net investment (loss) income by type of investments:

	($ thousands) 2008	2007
Private income	$ 68,633	$ 45,473
Real estate	84,301	291,216
Private equities	(89,055)	12,026
Fixed income securities	14,073	142,483
Timberland	(10,564)	28,544
Absolute return strategies	(203,162)	56,580
United States equities	(447,422)	(128,948)
Canadian equities	(875,511)	308,365
Non-North American equities	(919,806)	(62,413)
	$ (2,378,513)	$ 693,326

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Fifteen-Year Compound Annualized Return
Time-weighted rates of return*				
Overall actual (loss) gain*	(15.1%)	3.7%	3.5%	6.9%
Benchmark (loss) gain**	(10.8%)	4.0%	3.5%	6.8%
Value (lost) added from active management	(4.3%)	(0.3%)	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.

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 and reporting for the Plan and treasury management services.

Note 9 (continued)

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands) 2008	2007
Total investment expenses	$ 66,479	$ 57,616
Investment expenses as a percentage of net assets	0.49%	0.37%
Investment expenses per member	$ 361	$ 332

NOTE 10 MEMBER SERVICE EXPENSES

	($ thousands) 2008	2007
General administration costs and process improvement costs		
Alberta Pensions Administration Corporation (APA)	$ 18,642	$ 15,385
Alberta Local Authorities Pension Plan Corp.	2,099	1,759
Actuarial fees	404	241
	21,145	17,385
Member service expenses per member	$ 115	$ 100

General administration costs and process improvement costs, including Plan Board costs were paid to Alberta Pensions Administration Corporation and Alberta Local Authorities Pension Plan Corp. on a cost-recovery basis.

The Plan's share of Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance and Enterprise.

Alberta Local Authorities Pension Plan Corporation costs include remuneration to senior officials and board members as follows:

	($ thousands) 2008				2007
	Base Salary (a)	Other Cash Benefits	Other Non-Cash Benefits (b)	Total	Total
Corporation Board Chair (c)	$ -	$ 29	$ -	$ 29	$ 25
Corporation Board Members (excluding Chair) (c)	$ -	$ 127	-	127	113
President & Chief Executive Officer (d)	$ 210	$ 63	50	323	265
Vice-President: Policy and Legal (d)	$ 144	$ 41	33	218	196
	$ 354	$ 260	$ 83	$ 697	$ 599

Note 10 (continued)

a) Base salary includes regular base pay.

b) 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.

c) 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.

d) Other cash benefits include incentive pay (for the years 2007 and 2008), lump sum payments, vacation payouts and car allowance honoraria.

NOTE 11 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9 (b) and member service expenses per Note 10 are $87,624 (2007: $75,001) or $476 (2007: $432) per member and 0.60% (2007: 0.48%) 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 $15,418,300 at December 31, 2008 (2007: $15,360,000).

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 3.43% 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, 2008 (see Note 1(b)).

NOTE 13 SUBSEQUENT EVENT – DECLINE IN FAIR VALUE OF INVESTMENTS

The fair value of the Plan's investment is subject to significant market volatility due to the current economic crisis in global markets. In the two months subsequent to December 31, 2008, the Plan's investments declined by approximately 5.7% to approximately $12,726,000 from $13,493,066 at December 31, 2008. To the extent that investments of the Plan may not recover these market related losses during the remaining ten months of 2009, the deficiency of the Plan would increase accordingly.

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by Alberta Pensions Administration Corporation, Alberta Local Authorities Pension Plan Corp, Alberta Investment Management Corporation and the Plan's actuary, and after consultation with the Local Authorities Pension Plan Board of Trustees.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands) Plan's Share 2008	2007
Deposits and short-term securities	$ 322,425	$ 375,079
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed	799,341	1,405,971
Provincial		
Alberta, direct and guaranteed	104	187
Other Provincial, direct and guaranteed	1,963,349	1,984,612
Municipal	70,202	68,405
Corporate, public and private	1,575,320	1,728,298
	4,408,316	5,187,473
Receivable from sale of investments and accrued investment income	41,188	51,530
Accounts payable and accrued liabilities	(16,020)	(4,914)
	25,168	46,616
	$ 4,755,909	$ 5,609,168

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 Government of Canada bonds includes the notional amount of Canada bond futures contracts totalling $373,156 (2007: $nil).

b) Fixed income securities held as at December 31, 2008 had an average effective market yield of 5.4% per annum (2007: 6.0% per annum). The following term structure of these securities as at December 31, 2008 is based on the principal amount:

	2008	2007
	%	
under 1 year	1	1
1 to 5 years	8	6
6 to 10 years	8	19
11 to 20 years	17	18
over 20 years	66	56
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 46,168	$ 49,530
Public equities (a) (b)		
Consumer discretionary	175,525	209,342
Consumer staples	88,275	84,616
Energy	427,025	503,284
Financials	412,933	604,910
Health care	19,582	11,326
Industrials	203,635	259,573
Information technology	57,777	116,117
Materials	235,864	341,185
Telecommunication services	90,514	113,586
Utilities	37,542	32,516
	1,748,672	2,276,455
Pooled investment funds	157,255	246,931
Private equity pool	-	8,392
Receivable from sale of investments and accrued investment income	87,996	34,335
Accounts payable and accrued liabilities	(38,656)	(20,143)
	49,340	14,192
	$ 2,001,435	$ 2,595,500

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 swap and futures contracts totalling $99,736 (2007: $433).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 23,909	$ 32,545
Public equities (a) (b)		
Consumer discretionary	103,260	155,758
Consumer staples	99,771	121,336
Energy	107,430	159,033
Financials	178,683	266,101
Health care	164,570	204,957
Industrials	146,374	191,926
Information technology	181,322	249,791
Materials	54,202	79,981
Telecommunication services	31,317	42,311
Utilities	55,305	72,059
	1,122,234	1,543,253
Pooled investment funds	2,606	10,785
Receivable from sale of investments and accrued investment income	22,227	5,724
Accounts payable and accrued liabilities	(13,093)	(25,501)
	9,134	(19,777)
	$ 1,157,883	$ 1,566,806

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 United States public equities includes the notional amount of US equity index swap and futures contracts totalling $601,774 (2007: $821,596).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 63,962	$ 51,586
Public equities (a) (b)		
Consumer discretionary	207,974	300,672
Consumer staples	257,138	180,610
Energy	221,287	229,077
Financials	435,048	538,639
Health care	251,076	182,378
Industrials	251,754	394,156
Information technology	133,721	176,445
Materials	140,854	218,330
Telecommunication services	226,334	219,160
Utilities	120,335	122,706
	2,245,521	2,562,173
Pooled investment funds	28,200	57,320
Receivable from sale of investments and accrued investment income	23,035	13,774
Accounts payable and accrued liabilities	(16,548)	(30,448)
	6,487	(16,674)
	$ 2,344,170	$ 2,654,405

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 non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $458,535 (2007: $295,774).

b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of the stock exchange on which stocks were purchased:

	($ thousands) Plan's Share	
	2008	**2007**
Japan	$ 539,912	$ 461,560
United Kingdom	455,166	501,754
France	257,741	278,477
Germany	189,491	259,575
Switzerland	177,852	178,311
Spain	102,197	102,104
Australia	96,570	105,439
Netherlands	75,774	118,564
Italy	75,028	86,485
Hong Kong	43,468	53,215
Other	232,322	416,689
	$ 2,245,521	$ 2,562,173

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 3,575	$ 1,779
Real estate (a)		
Office	735,532	718,603
Retail	473,067	505,583
Industrial	256,025	231,952
Residential	99,449	88,831
	1,564,073	1,544,969
Pooled investment fund	55,429	58,088
Accrued income and accounts receivable	11,195	764
	$ 1,634,272	$ 1,605,600

a) The following is a summary of the Plan's investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2008	**2007**
Ontario	$ 801,877	$ 833,774
Alberta	592,631	546,521
Quebec	135,737	132,404
British Columbia	33,828	32,270
	$ 1,564,073	$ 1,544,969

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2008

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Alberta Finance and Enterprise

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Management Employees Pension Plan as at December 31, 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended. 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 audit.

I conducted my audit 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, 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
March 16, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2008

	($ thousands) 2008	2007
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 1,960,455	$ 2,351,906
Accrued investment income and accounts receivable	188	192
Contributions receivable (Note 6)	10,833	9,502
	1,971,476	2,361,600
Liabilities		
Accounts payable	611	300
Net assets available for benefits	1,970,865	2,361,300
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	2,539,439	2,445,641
Deficiency	$ (568,574)	$ (84,341)

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

Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 2008

	($ thousands) 2008	2007
Increase in Assets		
Contributions (Note 8)	$ 131,406	$ 114,463
Net investment (loss) income (Note 9)		
Investment (loss) income	(411,196)	65,059
Investment expenses	(5,945)	(5,081)
Additional Government contributions (Note 10)	-	40,000
Transfers from other plans, net	8,752	985
	(276,983)	215,426
Decrease in Assets		
Pension benefits	103,672	93,819
Refunds to members	8,405	5,987
Member service expenses (Note 11)	1,375	1,212
	113,452	101,018
(Decrease) increase in net assets	(390,435)	114,408
Net assets available for benefits at beginning of year	2,361,300	2,246,892
Net assets available for benefits at end of year	$ 1,970,865	$ 2,361,300

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

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2008

	2008	2007
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 164,903	$ 155,252
Benefits earned	94,059	83,538
Net experience losses (Note 7b)	-	28,942
	258,962	267,732
Decrease in liability for accrued benefits		
Benefits paid and transfers	103,325	98,821
Net change due to changes in actuarial assumptions (Note 7a)	61,839	(23,073)
	165,164	75,748
Net increase in liability for accrued benefits	93,798	191,984
Liability for accrued benefits at beginning of year	2,445,641	2,253,657
Liability for accrued benefits at end of year (Note 7)	$ 2,539,439	$ 2,445,641

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

Statement of Changes in Deficiency

For the year ended December 31, 2008

	($ thousands) 2008	2007
Deficiency at beginning of year	$ (84,341)	$ (6,765)
(Decrease) increase in net assets available for benefits	(390,435)	114,408
Net increase in liability for accrued benefits	(93,798)	(191,984)
Deficiency at end of year (Note 13)	$ (568,574)	$ (84,341)

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

Notes to the Financial Statements

December 31, 2008

(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,* Chapter P-41, Revised Statutes of Alberta 2000 and 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 a Board of Trustees.

b) PLAN FUNDING

Current service costs and the Plan’s actuarial deficiency (see Note 11) are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2008 were unchanged at 10.5% of pensionable salary up to the *maximum pensionable salary limit* under the federal *Income Tax Act* for employees and 18.0% for employers. The 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.

Pensions are payable to members who have attained age 65 at retirement.

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, a 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.

i) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

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. 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 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 market 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 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 then extrapolated, on an annual basis, to year-end. It 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 valuation 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 E)

	($ thousands)			
	2008		2007	
	Fair Value	%	Fair Value	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,708	0.4	$ 10,780	0.5
Universe Fixed Income Pool (b)	518,936	26.5	666,007	28.4
Private Mortgage Pool (c)	112,362	5.7	102,316	4.3
Real rate of return bonds (d)	76,680	3.9	80,725	3.4
Currency Alpha Pool (e)	4,951	0.3	3,202	0.1
Fixed Income Overlay Strategy (f)	(49,182)	(2.5)	-	-
Tactical Asset Allocation Pool	1,430	0.1	3,725	0.2
	673,885	34.4	866,755	36.9
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	77,611	4.0	112,959	4.8
Canadian Pooled Equities Fund (h)	99,814	5.1	137,914	5.8
Canadian Multi-Cap Equity Pool (i)	108,292	5.5	150,411	6.4
Canadian Equity Enhanced Index Pool (j)	46,875	2.4	67,856	2.9
Canadian Large Cap Equity Pool (k)	37,755	1.9	50,516	2.1
Growing Equity Income Pool (l)	21,201	1.1	30,637	1.3
Private Equity Pool	-	-	1,194	0.1
Canadian Overlay Strategy Pool (f)	19,343	1.0	-	-
	410,891	21.0	551,487	23.4
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	177,224	9.0	238,667	10.1
U.S. Small/Mid Cap Equity Pool (n)	31,573	1.6	38,941	1.7
Portable Alpha U.S. Pool (o)	67,460	3.5	34,627	1.5
Growing Equity Income Pool (l)	1,813	0.1	6,651	0.3
U.S. Overlay Strategy Pool (f)	5,968	0.3	-	-
	284,038	14.5	318,886	13.6
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	214,668	10.9	273,154	11.6
Emerging Markets Equity Pool (q)	8,698	0.4	15,986	0.7
EAFE Structured Equity Pool (r)	61,964	3.2	74,402	3.1
Structured Transition Pool (s)	1,185	0.1	-	-
EAFE Overlay Strategy Pool (f)	37,309	1.9	-	-
	323,824	16.5	363,542	15.4
Real Estate Equities (Schedule E)				
Private Real Estate Pool (t)	175,510	8.9	173,182	7.4
Alternative Investments - Equities				
Private Equity Pools (u)	41,823	2.1	37,905	1.6
Private Income Pools (v)	34,803	1.8	23,755	1.0
Absolute Return Strategy Pool (w)	15,681	0.8	16,394	0.7
	92,307	4.7	78,054	3.3
Total equities	1,286,570	65.6	1,485,151	63.1
Total investments	$ 1,960,455	100.0	$ 2,351,906	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 high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

b) The Universe Fixed Income Pool 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 high quality Canadian fixed income instruments and debt related derivatives. 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 high-quality 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, EAFE equities, major foreign currencies and styles and sectors. At December 31, 2008, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through equity index futures and swap contracts.

g) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

i) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

j) The Canadian Equity Enhanced Index Pool consists of a publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

k) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

Note 3 (continued)

l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.

m) The U.S. Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

n) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. Small/Mid Cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the U.S. Small/Mid Cap Pool over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

o) The Portable Alpha U.S. Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 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. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

p) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

q) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are 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.

r) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

s) The Structured Transition Pool provides exposure to non-North American markets through the use of structured investments such as foreign equity index swaps.

t) 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.

u) The Private Equity Pool 2002 and Private Equity 2004 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.

v) 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.

Note 3 (continued)

w) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Investable 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. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term policy asset mix benchmark:

Short-term	0.5%
Fixed income	32.5%
Canadian equity	22.0%
U.S. equity	14.0%
Non-North American equity	16.0%
Real estate	7.0%
Alternative investments	8.0%

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 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

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 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.

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, 2008:

($ thousands)

	2008					2007	
	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	93	7	-	$ 499,455	$ 5,906	$ 564,026	$ (5,891)
Credit default swap contracts	5	44	51	727,690	(13,773)	691,323	(1,972)
Interest rate swap contracts	15	52	33	184,859	(8,732)	369,156	(1,505)
Forward foreign exchange contracts	100	-	-	160,696	(5,300)	189,813	(349)
Cross-currency interest rate swaps	17	58	25	130,110	(5,851)	158,231	11,092
Futures contracts	100	-	-	100,094	14,811	162,427	3,998
Bond index swap contracts	100	-	-	35,330	929	81,906	2,555
Swap option contracts	-	-	-	-	-	381,228	72
				$ 1,838,234	$ (12,010)	$ 2,598,110	$ 8,000

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)

	2008	2007
Employers	$ 6,833	$ 5,996
Employees	4,000	3,506
	$ 10,833	$ 9,502

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2007 as at December 31, 2006 by AON Consulting Inc. and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,539,439 (2007: $2,445,641) 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 note of return, inflation rate and salary escalation rate.

The actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate and salary escalation rate assumptions for the accounting extrapolation differ from those assumptions previously established for funding.

The major assumptions used for accounting purposes were:

	2006 Valuation and 2008 Extrapolation	**2006 Valuation and 2007 Extrapolation**
	%	
Investment rate of return	6.75	6.75
Inflation rate		
For 2008 and 2009	3.50	3.50
Thereafter	2.25	2.75
Salary escalation rate*		
For 2008 and 2009	4.00	4.00
Thereafter	3.50	3.25
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

* In addition to merit and promotion.

b) NET EXPERIENCE LOSSES

Net experience losses of $nil (2007: $28,942) arose from differences between the actuarial assumptions used in the valuation and actual results.

Note 7 (continued)

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably 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, 2008:

	($ 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	170,800	1.3
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	22,000	0.7
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	323,400	3.8

* 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, 2006 valuation was 20.4%.

NOTE 8 CONTRIBUTIONS

	($ thousands)	
	2008	**2007**
Current and optional service		
Employers	$ 81,444	$ 71,857
Employees	49,962	42,606
	$ 131,406	$ 114,463

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT (LOSS) INCOME

Net investment (loss) income of the Plan is comprised of the following:

	($ thousands) 2008	2007
Investment (loss) income		
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	$ (502,282)	$ (29,124)
Interest income	57,490	66,123
Dividend income	24,036	20,150
Real estate operating income	8,126	7,140
Securities lending income	1,434	770
	(411,196)	65,059
Investment expenses	(5,945)	(5,081)
Net investment (loss) income	$ (417,141)	$ 59,978

The following is a summary of the Plan's proportionate share of net investment (loss) income by type of investments:

	($ thousands) 2008	2007
Private real estate	$ 9,071	$ 31,371
Private income	4,330	2,909
Private equities	(3,898)	6,661
Fixed income securities	(5,323)	16,025
Absolute return strategy	(5,451)	1,033
United States equities	(101,902)	(36,137)
Non-North American equities	(124,430)	(11,021)
Canadian equities	(189,538)	49,137
Net investment (loss) income	$ (417,141)	$ 59,978

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return	Fifteen-Year Compound Annualized Return
Time-weighted rates of return*				
Actual (loss) gain	(17.6%)	2.2%	2.7%	6.7%
*Benchmark (loss) gain***	*(14.4%)*	*2.7%*	*2.8%*	*6.6%*
Value lost from active management	(3.2%)	(0.5%)	(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.

Note 9 (continued)

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 external recognized.

Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. Alberta Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands) 2008	2007
Total investment expenses	$ 5,945	$ 5,081
Investment expenses as a percentage of net assets	0.30%	0.22%
Investment expenses per member	$ 695	$ 628

NOTE 10 ADDITIONAL GOVERNMENT CONTRIBUTIONS

In March 2007, the *Appropriation (Supplementary Supply) Act 2007* was passed authorizing the Province to make a lump sum payment of $40,000 to the Plan toward the Government's share of the Plan's unfunded actuarial deficiency.

NOTE 11 MEMBER SERVICE EXPENSES

Member service expenses of $1,375 (2007: $1,212) which include Board costs in the amount of $71 (2007: $48), were charged to the Plan on a cost-recovery basis. These are $161 (2007: $150) per member.

The Plan's share of Alberta Pensions Administration Corporation'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 $7,320 (2007: $6,293) or $856 (2007: $778) per member and 0.37% (2007: 0.27%) of net assets under administration.

NOTE 13 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $2,069,000 at December 31, 2008 (2007: $2,297,000).

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 7.3% 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, 2008 (see Note 1(b)).

NOTE 14 SUBSEQUENT EVENT – DECLINE IN FAIR VALUE INVESTMENTS

The fair value of the Plan's investment is subject to significant market volatility due to the current economic crisis in global markets. In the two months subsequent to December 31, 2008, the Plan's investments declined by approximately 6.6% to approximately $1,832,000 from $1,960,455 at December 31, 2008. To the extent that investments of the Plan may not recover these market related losses during the remaining ten months of 2009, the deficiency of the Plan would increase accordingly.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 presentation.

NOTE 16 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 Administration Corporation, Alberta Investment Management Corporation and the Plan's actuary, and after consultation with the Management Employees Pension Board.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES Schedule A

	($ thousands) Plan's Share 2008	2007
Deposits and short-term securities	$ 41,719	$ 19,575
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	115,659	222,366
Provincial		
Alberta, direct and guaranteed	143	199
Other Provincial, direct and guaranteed	81,550	95,038
Municipal	34	306
Corporate, public and private	443,465	517,879
	640,851	835,788
Receivable from sale of investments and accrued investment income	5,654	12,047
Accounts payable and accrued liabilities	(14,339)	(655)
	(8,685)	11,392
	$ 673,885	$ 866,755

(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 Government of Canada bonds includes the notional amount of Canada bond futures contracts totalling $54,485 (2007: $nil).

(b) Fixed income securities held as at December 31, 2008 had an average effective market yield of 5.3% per annum (2007: 5.2% per annum). The following term structure of these securities as at December 31, 2008 was based on the principal amount:

	2008	2007
	%	%
under 1 year	4	5
1 to 5 years	33	27
6 to 10 years	24	35
11 to 20 years	17	13
over 20 years	22	20
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES Schedule B

	($ thousands)	
	Plan's Share	
	2008	2007
Deposits and short-term securities	$ 9,050	$ 2,642
Public equities (a) (b)		
Consumer discretionary	23,623	29,065
Consumer staples	13,830	11,602
Energy	107,109	142,650
Financials	114,511	159,018
Health care	1,007	1,647
Industrials	24,155	29,936
Information technology	13,037	27,304
Materials	62,967	83,623
Telecommunication services	26,062	33,178
Utilities	5,093	5,067
	391,394	523,090
Pooled investment funds	13,153	22,244
Private equity pool	-	1,194
Receivable from sale of investments and accrued investment income	7,567	4,310
Accounts payable and accrued liabilities	(10,273)	(1,993)
	(2,706)	2,317
	$ 410,891	$ 551,487

(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 swap and futures contracts totalling $168,883 (2007: $198,852).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands) Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 3,249	$ 4,421
Public equities (a) (b)		
Consumer discretionary	23,947	30,193
Consumer staples	33,268	30,330
Energy	34,698	38,643
Financials	40,602	56,390
Health care	41,144	38,615
Industrials	32,186	38,047
Information technology	43,155	52,589
Materials	9,424	12,248
Telecommunication services	9,990	10,532
Utilities	12,169	12,538
	280,583	320,125
Pooled investment funds	154	652
Receivable from sale of investments and accrued investment income	3,707	1,312
Accounts payable and accrued liabilities	(3,655)	(7,624)
	52	(6,312)
	$ 284,038	$ 318,886

(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 United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling $248,110 (2007: $222,163).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Plan's Share 2008	2007
Deposits and short-term securities	$ 10,091	$ 6,580
Public equities (a) (b)		
Consumer discretionary	28,785	40,731
Consumer staples	34,821	25,304
Energy	29,910	30,966
Financials	61,551	76,506
Health care	33,890	24,588
Industrials	34,788	52,486
Information technology	18,107	23,611
Materials	20,105	30,523
Telecommunication services	29,813	29,082
Utilities	17,571	17,269
	309,341	351,066
Pooled investment funds	4,341	8,749
Receivable from sale of investments and accrued investment income	3,119	1,778
Accounts payable and accrued liabilities for investment purchases	(3,068)	(4,631)
	51	(2,853)
	$ 323,824	$ 363,542

(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 Non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $97,351 (2007: $77,740).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index. The following is a summary of the Plan's share of non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	($ thousands) Plan's Share 2008	2007
Japan	$ 74,699	$ 63,926
United Kingdom	62,357	69,442
France	35,151	37,927
Germany	26,139	35,078
Switzerland	24,635	24,251
Spain	14,015	14,094
Australia	13,998	15,391
Italy	10,460	12,039
Netherlands	9,987	15,406
Hong Kong	6,059	7,306
Other	31,841	56,206
	$ 309,341	$ 351,066

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 384	$ 192
Real estate (a)		
Office	78,991	77,509
Retail	50,804	54,533
Industrial	27,496	25,019
Residential	10,680	9,581
	167,971	166,642
Pooled investment funds	5,953	6,266
Accrued income and accounts receivable	1,202	82
	$ 175,510	$ 173,182

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2008	**2007**
Ontario	$ 86,116	$ 89,932
Alberta	63,645	58,948
Quebec	14,577	14,281
British Columbia	3,633	3,481
	$ 167,971	$ 166,642

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

Year Ended March 31, 2009

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statement 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, 2009 and the Statement of Changes in Net Assets Available for Benefits for the year 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 audit.

I conducted my audit 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, 2009 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
June 4, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at March 31, 2009

	($ thousands)	
	2009	2008
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 78,306	$ 98,122
Contributions receivable	282	272
Accounts receivable	-	100
	78,588	98,494
Liabilities		
Accounts payable	28	25
Net assets available for benefits	78,560	98,469
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	89,419	102,975
Actuarial Deficit (Note 8)	**$ (10,859)**	**$ (4,506)**

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended March 31, 2009

	($ thousands) 2009	2008
Increase in assets		
Net investment loss (Note 9)		
Investment loss	$ (16,950)	$ (1,351)
Investment expenses (Note 10)	(244)	(212)
	$ (17,194)	$ (1,563)
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	972	902
Province of Alberta	2,243	2,334
	3,215	3,236
	(13,979)	1,673
Decrease in assets		
Pension benefits and refunds	5,852	5,405
Administration expenses (Note 10)	78	78
	5,930	5,483
Decrease in net assets	(19,909)	(3,810)
Net assets available for benefits at beginning of year	98,469	102,279
Net assets available for benefits at end of year	**$ 78,560**	**$ 98,469**

See accompanying notes and schedules.

Notes to the Financial Statements

March 31, 2009
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers (Registered) Pension Plan (the Plan) is a summary only. For a complete description of the Registered Plan, reference should be made to the *Provincial Court Act*, Chapter P-31, Revised Statutes of Alberta 2000, *Court of Queen's Bench Act*, Chapter C-31, Revised Statutes of Alberta 2000, *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000 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 and is not subject to income taxes. The registered number is 0927764.

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, 2009 are 7.00% of *capped salary* for plan members and 16.16% of *capped salary* for the Province. The rates are reviewed at least once every three years by the Province 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. Pensionable earnings after December 31, 1991 are capped at the *maximum pensionable salary limit* under the federal *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 five years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained at age 55.

Members are entitled to an unreduced pension on service after March 31, 1998 if they retire with at least five years of service and have attained age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members who have attained age 70.

d) DISABILITY BENEFITS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

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, a 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'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 administered by Alberta Investment Management Corporation. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded in the financial statements at fair value.

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

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Note 2 (continued)

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

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

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

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

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

Note 2 (continued)

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation 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 calculation 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 (Schedules B)

	($ thousands)			
	2009		2008	
	Fair Value		Fair Value	
Fixed Income Securities (Schedule B)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 843	1.1	$ 935	1.0
Universe Fixed Income Pool (b)	29,632	37.8	37,201	37.9
Private Mortgage Pool (c)	3,777	4.8	5,393	5.5
Currency Alpha Pool (d)	63	0.1	61	0.1
Tactical Asset Allocation Pool	55	0.1	-	-
Fixed Income Overlay Strategy Pool (e)	(1,954)	(2.5)	148	0.1
	32,416	41.4	43,738	44.6
Canadian Equities (Schedule C)				
Canadian Multi-Cap Equity Pool (f)	2,882	3.7	5,253	5.3
Canadian Pooled Equities Fund (g)	299	0.4	4,691	4.8
Canadian Structured Equity Pool (h)	2,139	2.7	3,936	4.0
Canadian Equity Enhanced Index Pool (i)	1,361	1.7	2,414	2.5
Canadian Large Cap Equity Pool (j)	1,069	1.4	1,646	1.7
Growing Equity Income Pool (k)	2,692	3.4	937	0.9
Private Equity Pool	-	-	80	0.1
Temporary Pool	388	0.5	-	-
Canadian Equity Overlay Strategy Pool (e)	1,018	1.3	-	-
	11,848	15.1	18,957	19.3
United States Equities (Schedule D)				
U.S. Structured Equity Pool (l)	7,177	9.2	8,890	9.0
Portable Alpha US Equity Pool (m)	3,013	3.8	3,205	3.3
US Mid/Small Cap Equity Pool (n)	1,335	1.7	1,635	1.7
Growing Equity Income Pool (k)	49	0.1	252	0.2
U.S. Overlay Strategy Pool (e)	186	0.2	-	-
	11,760	15.0	13,982	14.2
Non-North American Equities (Schedule E)				
EAFE Active Equity Pool (o)	7,892	10.1	10,449	10.6
EAFE Structured Equity Pooled Fund (p)	2,399	3.1	2,571	2.6
Emerging Markets Equity Pool (q)	272	0.3	639	0.7
EAFE Overlay Strategy Pool (e)	1,479	1.9	-	-
	12,042	15.4	13,659	13.9
Real Estate Schedule (F)				
Private Real Estate Pool (r)	6,428	8.2	6,548	6.7
Alternative Investments				
Absolute Return Strategy Pool (s)	1,383	1.8	-	-
Private Income Pool (t)	2,429	3.1	1,238	1.3
	45,890	58.6	54,384	55.4
Total investments	$ 78,306	100.0	$ 98,122	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 high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

b) The Universe Fixed Income Pool is managed with the objective of providing competitive returns comparable to the total return of the DEX Bond Universe Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. 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 Bond Universe Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. 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) 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.

e) 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, EAFE equities, major foreign currencies and styles and sectors. At March 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.

f) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. . The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

h) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

i) The Canadian Equity Enhanced Index Pool consist of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.

NOTE 3 (continued)

l) The US Structured Equity Pool is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

m) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 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. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

n) The US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

o) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

p) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four- year period. The Pool is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

q) 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.

r) 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.

s) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Investable Index. Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

t) The Private Income Pool is 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.

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 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 benchmark long-term policy asset mix for investments:

Fixed income securities	42.0%
Canadian equities	15.0%
U.S. equities	16.0%
Non-North American equities	16.0%
Real estate	5.0%
Private income	4.0%
Absolute return strategies	2.0%

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 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 stock index.

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 March 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	100	-	-	$ 17,368	$ 76	$ 20,912	$ 72
Cross-currency interest rate swap	33	39	28	5,734	(245)	5,988	101
Interest rate swap contracts	14	43	43	7,351	(344)	19,601	(148)
Credit default swap contracts	3	56	41	47,407	(716)	39,969	(244)
Bond index swap contracts	100	-	-	1,459	11	3,651	146
Futures contracts	100	-	-	6,584	981	5,189	169
Forward foreign exchange contracts	100	-	-	6,862	(181)	5,482	(73)
Swap option contracts	-	-	-	-	-	20,051	8
				$ 92,765	$ (418)	$ 120,843	$ 31

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 favorable 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 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, 2009 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, 2009 and changes in net assets available for benefits for the year then ended is as follows:

Note 6 (continued)

	($ thousands) 2009	2008
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	$ 4,042	$ 4,711
Income tax refundable	9,174	7,999
Accounts payable, net	(2,098)	(1,179)
	11,118	11,531
Liabilities		
Actuarial value of accrued benefits	74,076	75,279
Excess of liabilities over assets	(62,958)	(63,748)
Reserve Fund (a)	54,715	62,014
Net liabilities	**$ (8,243)**	**$ (1,734)**

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.

	($ thousands) 2009	2008
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	$ 925	$ 989
Province of Alberta	925	990
Investment income	114	188
	1,964	2,167
Decrease in assets		
(Decrease) increase in actuarial accrued benefits	1,203	(9,668)
Pension benefits	(2,303)	(1,702)
Administration costs	(74)	(77)
	(1,174)	(11,447)
(Decrease) Increase in the Reserve Fund	(7,299)	3,608
Decrease in net assets	(6,509)	(5,672)
Net assets (liabilities) assets at beginning of year	(1,734)	3,938
Net liabilities at end of year	**$ (8,243)**	**$ (1,734)**

An actuarial valuation for the Unregistered Plan was carried out as at December 31, 2008 by Johnson Inc. and was extrapolated to March 31, 2009. The 2008 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Unregistered Plan's actuary, the Plan's management approved these best estimates.

The major assumptions used in the actuarial valuation were the same as those used in the valuation of the Registered Plan except for the investment return rate which was assumed to be 5.5% per annum until the year 2016 and 6.5% per annum thereafter (see Note 7).

The Unregistered Plan's future experience will inevitably 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 7 ACCRUED BENEFITS

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Johnson Inc. and was then extrapolated to March 31, 2009. The 2008 valuation was determined using the projected benefit method based on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Plan's management approved these best estimates.

The major assumptions used were:

	December 31, 2008 Valuation and March 31, 2009 Extrapolation %	December 31, 2005 Valuation and March 31, 2008 Extrapolation %
Asset real rate of return	4.25	3.5
Inflation rate	2.25	3.0
Investment return	6.50	6.5
Salary escalation rate	3.50	4.0

The following statement shows the principal components of the change in the value of accrued benefits.

	($ thousands) 2009	2008
Accrued pension benefits at beginning of year	$ 102,975	$ 96,164
Interest accrued on benefits	6,693	6,251
Net experience losses (gains)	(9,555)	2,531
Benefits earned	3,685	3,434
Net benefits paid	(5,852)	(5,405)
Change in economic assumptions	(8,527)	-
Accrued pension benefits at end of year	**$ 89,419**	**$ 102,975**

Note 7 (continued)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

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 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, 2009:

	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%	$ 4.7	1.2%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.3	-
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	1.0%	8.9	3.5%

* As a % of capped pensionable earnings

NOTE 8 ACTUARIAL DEFICIT

Any assets remaining in the Plan after all benefits are paid on complete wind-up must be returned to the Province of Alberta.

NOTE 9 NET INVESTMENT LOSS

Net investment income (loss) is comprised of the following:

	($ thousands)	
	2009	2008
Investment income (loss)		
Net realized and unrealized loss on investments including those arising from derivative transactions	$ (20,416)	$ (5,290)
Interest income	2,589	2,840
Dividend income	526	801
Real estate operating income	310	266
Securities lending income	41	32
	(16,950)	(1,351)
Investment Expenses	(244)	(212)
	$ (17,194)	**$ (1,563)**

Note 9 (continued)

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

	($ thousands)	
	2009	**2008**
Fixed Income Securities	$ (1,583)	$ 1,425
Canadian Equities	(5,186)	602
Foreign Equities		
United States	(4,791)	(2,779)
Non-North American	(5,680)	(1,878)
Real Estate	296	983
Absolute Return Strategies	(262)	-
Private Income	12	84
	$ (17,194)	**$ (1,563)**

NOTE 10 INVESTMENT AND ADMINISTRATION EXPENSES

	($ thousands)	
	2009	**2008**
Investment Expenses	$ 244	$ 212
Administration Expenses	78	78
	$ 322	**$ 290**

Administration expenses comprise of general administration costs paid to Alberta Pensions Administration Corporation on a cost-recovery basis. The Investment management and Pooled funds management and associated custodial fees, which have been deducted from investment income (loss) of the pools, are excluded from administration expenses.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance and Enterprise. These policies have been revised on a prospective basis and only affect the current year allocation. These policies will be reviewed once every three years by the Minister.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2009 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

SCHEDULE OF INVESTMENT RETURNS

Schedule A

The Plan uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the plan over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns and the relevant benchmarks for the Plan for the one-year and four-year periods ended March 31, 2009 are as follows:

	One Year Return 2009	4 Year Compound Annualized Return
Time-weighted rates of return (in percent)		
Overall	**(17.7)**	**3.0**
Policy Benchmark	***(12.9)***	***3.4***
Value lost from active management	(4.8)	(0.4)
Short-term fixed Income	**2.9**	**3.3**
DEX 91-day T-Bill Index	*2.4*	*3.2*
Value added from active management	*0.5*	*0.1*
Long-term fixed income	**(3.9)**	**5.4**
DEX Universe Bond Index	*4.9*	*6.4*
Value lost from active management	*(8.8)*	*(1.0)*
Canadian equities	**(32.9)**	**3.8**
S&P/TSX Composite Index	*(32.4)*	*4.0*
Value lost from active management	*(0.5)*	*(0.2)*
United States equities	**(30.5)**	**(6.5)**
Standard &Poor's 1500 Index	*(23.9)*	(5.4)
Value lost from active management	*(6.6)*	(1.1)
Non-North American equities	**(36.9)**	**(2.4)**
MSCI EAFE Index	*(34.4)*	*(2.9)*
Value added (lost) from active management	*(2.5)*	*0.5*
Real Estate	**4.7**	**13.5**
IPD Large All Property Index	*1.6*	*11.7*
Value added from active management	*3.1*	*1.8*
Private Income	**0.6**	**n/a**
Consumer Price Index plus 6%	*7.4*	*n/a*
Value lost from active management	*(6.8)*	*n/a*

The current sector benchmark indices are as of March 31, 2009. Benchmark indices may have been different in prior years, therefore the benchmark returns may be a blend of different indices.

Schedule B

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

	($ thousands)	
	Plan's Share	
	2009	2008
Deposits and Short-term securities	$ 2,052	$ 1,616
Fixed Income Securities (a) (b)		
Government of Canada, direct and guaranteed	3,377	8,610
Alberta, direct	8	12
Other Provincial, direct and guaranteed	4,519	5,169
Municipal	2	2
Corporate, public and private	22,924	28,004
	30,830	41,797
Receivable from sale of investments and accrued investment income	360	737
Accounts payable and accrued liabilities	(826)	(412)
	(466)	325
	$ 32,416	**$ 43,738**

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 Government of Canada bonds includes the notional amount of Canada bond futures contracts totaling $2,300 (2008: $nil).

b) Fixed income securities held as at March 31, 2009 have an average effective market yield of 7.2% per annum (2008: 5.0% per annum) and the following term structure based on principal amount:

	%	
	2009	2008
under 1 year	6	4
1 to 5 years	37	29
5 to 10 years	25	38
10 to 20 years	16	11
over 20 years	16	18
	100	**100**

Schedule C

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

	($ thousands) Plan's Share	
	2009	2008
Deposits and Short-term securities	$ 379	$ 431
Public Equities (a) (b)		
Consumer discretionary	538	921
Consumer staples	455	429
Energy	2,869	4,989
Financials	3,405	5,111
Health care	42	28
Industrials	671	986
Information technology	380	885
Materials	1,994	3,151
Telecommunication services	618	1,018
Utilities	168	161
	11,140	17,679
Pooled investment funds	266	782
Private Equity Pool	-	80
Receivable from sale of investments and accrued investment income	81	112
Accounts payable and accrued liabilities	(18)	(127)
	63	(15)
	$ 11,848	**$ 18,957**

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 swap contracts and equity index futures contracts totaling $7,160 (2008: $6,772).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule D

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and Short-term securities	$ 100	$ 407
Public Equities (a) (b)		
Consumer discretionary	1,054	1,321
Consumer staples	1,381	1,416
Energy	1,411	1,779
Financial	1,390	2,402
Health care	1,788	1,642
Industrials	1,196	1,793
Information technology	2,107	2,206
Materials	433	599
Telecommunication services	428	445
Utilities	527	537
	11,715	14,140
Pooled investment fund	22	26
Receivable from sale of investments and accrued investment income	92	79
Accounts payable and accrued liabilities	(169)	(670)
	(77)	(591)
	$ 11,760	**$ 13,982**

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 United States public equities includes the notional amount of U.S. equity index swap contracts and futures contracts totaling $10,377 (2008: $10,404).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule E

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and Short-term securities	$ 361	$ 250
Public Equities (a) (b)		
Consumer discretionary	1,151	1,434
Consumer staples	1,271	1,147
Energy	1,198	1,130
Financial	2,342	2,729
Health care	1,182	951
Industrials	1,282	1,890
Information technology	746	803
Materials	859	1,253
Telecommunication services	1,003	1,034
Utilities	579	726
	11,613	13,097
Emerging market equity pools	133	354
Receivable from sale of investments and accrued investment income	249	203
Accounts payable and accrued liabilities	(314)	(245)
	(65)	(42)
	$ 12,042	**$ 13,659**

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 Non-North American public equities includes the notional amount of EAFE equity index swap contracts totaling $3,857 (2008: $2,795).

b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	($ thousands)	
	Plan's Share	
	2009	2008
Japan	$ 2,627	$ 2,498
United Kingdom	2,387	2,849
France	1,315	1,470
Germany	914	1,272
Switzerland	885	875
Australia	660	549
Spain	476	538
Italy	365	468
Netherlands	364	538
Hong Kong	243	330
Other	1,510	2,064
	$ 11,746	**$ 13,451**

Schedule F

SCHEDULE OF INVESTMENTS IN REAL ESTATE

	($ thousands)	
	Plan's Share	
	2009	2008
Deposits and Short-term securities	$ 38	$ 9
Real estate (a)		
Office	2,873	2,915
Retail	1,856	2,045
Industrial	1,023	970
Residential	364	370
	6,116	6,300
Participation units	230	236
Accrued income and accounts receivable	44	3
	$ 6,428	**$ 6,548**

a) The following is a summary of the Plan's investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2009	2008
Ontario	$ 3,108	$ 3,383
Alberta	2,340	2,245
Quebec	535	537
British Columbia	133	135
	$ 6,116	**$ 6,300**

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statement of Liability for Accrued Benefits and Net Assets Available for Benefits of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2008 and the Statement of Changes in Net Assets Available for Benefits for the year 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 audit.

I conducted my audit 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, 2008 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
March 16, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Liability for Accrued Benefits and Net Assets Available for Benefits

As at December 31, 2008

	($ thousands) 2008	2007
Liability for accrued Benefits		
Actuarial value of accrued pension benefits (Note 3)	$ 658,466	$ 705,460
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 4)	1,581	1,416
Accounts receivable	2	-
	1,583	1,416
Liabilities		
Accounts payable	3	21
Net assets available for benefits	1,580	1,395
Excess of liability for accrued pension benefits over net assets	$ 656,886	$ 704,065

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 2008

	($ thousands)	
	2008	**2007**
Increase in assets		
Contributions from the Province of Alberta	$ 59,400	$ 58,350
Investment income	73	85
	59,473	58,435
Decrease in net assets		
Pension benefits	58,952	58,258
Administration expenses (Note 5)	289	259
Refunds and transfer to members	47	-
	59,288	58,517
Increase (Decrease) in net assets	185	(82)
Net assets available for benefits at beginning of year	1,395	1,477
Net assets available for benefits at end of year	$ 1,580	$ 1,395

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2008

(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*, Chapter P-41, Revised Statutes of Alberta 2000.

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 and the plan costs.

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 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 then extrapolated, on an annual basis, to year-end. It 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 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 in 2006 as at December 31, 2005 by AON Consulting Inc. and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $658,466 (2007: $705,460) 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 and inflation rate.

The actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate assumption for the accounting extrapolation differs from the assumption previously established for funding.

The major assumptions used for accounting purposes were:

	2005 Valuation 2008 Extrapolation	2005 Valuation and 2007 Extrapolation
	%	%
Inflation rate	2.25	2.75
Investment rate of return	5.00	5.00
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2005 using Scale AA	

The following statement shows the principal components of the change in the actuarial value of accrued pension benefits.

	($ thousands) 2008	2007
Actuarial value of accrued pension benefits at beginning of year	$ 705,460	$ 728,738
Interest accrued on benefits	33,798	34,980
Net benefits paid	(58,999)	(58,258)
Net change due to changes in actuarial assumptions	(21,793)	-
Actuarial value of accrued pension benefits at end of year	$ 658,466	$ 705,460

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, 2008:

	($ thousands)	
	Changes in Assumptions	**Increase in Plan Deficiency**
Inflation rate increase holding the nominal discount rate assumption constant	1.0%	$ 45,000
Nominal discount rate decrease holding the inflation rate assumption constant	(1.0%)	55,000

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 high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2008, securities held by the Fund have an average effective market yield of 3.53% per annum (2007: 4.48% per annum).

NOTE 5 ADMINISTRATION EXPENSES

	($ thousands)	
	2008	**2007**
General administration costs	$ 271	$ 243
Investment management costs	13	10
Actuarial fees	5	6
	$ 289	$ 259

General administration costs were paid to Alberta Pensions Administration 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 $118 (2007: $104) per member or 18% (2007: 19%) of net assets under administration.

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 Administration Corporation and the Plan's actuary.

PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise and the Public Service Pension Board

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Public Service Pension Plan as at December 31, 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (Deficiency) for the year 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 audit.

I conducted my audit 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, 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
March 26, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2008

	($ thousands)	
	2008	**2007**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 4,747,917	$ 5,845,067
Contributions receivable (Note 6)	23,537	21,595
Accrued investment income and accounts receivable	870	1,161
	4,772,324	5,867,823
Liabilities		
Accounts payable	1,506	1,893
Net assets available for benefits	4,770,818	5,865,930
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	5,958,356	5,958,439
Deficiency at end of year	$ (1,187,538)	$ (92,509)

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

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2008

	($ thousands) 2008	2007
Increase in assets		
Contributions (Note 9)	$ 325,492	$ 293,194
Net investment (loss) income (Note 8)		
Investment (loss) income	(1,107,812)	122,015
Investment expenses	(19,258)	(17,945)
Transfers from other plans	13,101	8,066
	(788,477)	405,330
Decrease in assets		
Pension benefits	216,531	202,858
Refunds to members	62,239	56,097
Transfers to other plans	19,789	15,447
Member service expenses (Note 10)	8,076	7,022
	306,635	281,424
(Decrease) increase in net assets	(1,095,112)	123,906
Net assets available for benefits at beginning of year	5,865,930	5,742,024
Net assets available for benefits at end of year	$ 4,770,818	$ 5,865,930

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

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2008

	($ thousands) 2008	2007
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 415,820	$ 389,734
Benefits earned	262,261	232,523
Net experience losses (Note 7b)	4,580	22,001
	682,661	644,258
Decrease in liability for accrued benefits		
Benefits paid	298,559	274,402
Net decrease due to actuarial assumption changes (Note 7a)	384,185	-
	682,744	274,402
Net (decrease) increase in liability for accrued benefits	(83)	369,856
Liability for accrued benefits at beginning of year	5,958,439	5,588,583
Liability for accrued benefits at end of year (Note 7)	$ 5,958,356	$ 5,958,439

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

Statement of Changes in Surplus (Deficiency)

For the year ended December 31, 2008

	($ thousands)	
	2008	**2007**
(Deficiency) Surplus at beginning of year	$ (92,509)	$ 153,441
(Decrease) increase in net assets available for benefits	(1,095,112)	123,906
Net decrease (increase) in liability for accrued benefits	83	(369,856)
Deficiency at end of year (Note 12)	$ (1,187,538)	$ (92,509)

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

Notes to the Financial Statements

December 31, 2008
(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,* Chapter P-41, Revised Statutes of Alberta 2000 and 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 a Board of Trustees.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 11) are funded equally by employers and employees at rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2008 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.

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 federal *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, a 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 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 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 then extrapolated, on an annual basis, to year-end. It 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 valuation 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 E)

	2008 Fair Value ($ thousands)	%	2007 Fair Value ($ thousands)	%
CASH AND ABSOLUTE RETURN STRATEGIES				
Money Market				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 69,056	1.4	$ 50,927	0.9
Currency Alpha Pool (b)	12,715	0.3	8,224	0.1
Tactical Asset Allocation Pool	3,398	0.1	9,316	0.2
	85,169	1.8	68,467	1.1
Absolute Return Strategy Pool (c)	152,218	3.2	162,640	2.8
Fixed Income Securities (Schedule A)				
Universe Fixed Income Pool (d)	435,350	9.1	1,153,646	19.7
Canadian Long Term Government Bond Pool (d)	481,977	10.2	-	-
Private Mortgage Pool (e)	221,988	4.7	202,220	3.5
Fixed Income Overlay Strategy Pool (f)	(119,749)	(2.5)	-	-
	1,019,566	21.5	1,355,866	23.2
EQUITIES				
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	120,582	2.5	195,113	3.3
Canadian Pooled Equities Fund (h)	160,145	3.4	236,749	4.1
Canadian Equity Enhanced Index Pool (i)	80,791	1.7	115,760	2.0
Canadian Large Cap Equity Pool (j)	60,790	1.3	87,145	1.5
Canadian Multi-Cap Pool (k)	175,284	3.7	259,018	4.4
Growing Equity Income Pool (l)	39,295	0.8	56,784	1.0
Canadian Overlay Strategy Pool (f)	47,098	1.0	-	-
	683,985	14.4	950,569	16.3
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	600,900	12.6	760,224	13.0
Portable Alpha U.S. Pool (n)	238,104	5.0	236,784	4.0
U.S. Small/Mid Cap Equity Pool (o)	113,411	2.4	138,076	2.4
Growing Equity Income Pool (l)	3,360	0.1	12,327	0.2
U.S. Overlay Strategy Pool (f)	14,532	0.3	-	-
	970,307	20.4	1,147,411	19.6
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	669,615	14.1	874,730	15.0
EAFE Structured Equity Pool(q)	76,755	1.6	109,966	1.9
Structured Transition Pool (r)	2,727	0.1	-	-
EAFE Overlay Strategy Pool (f)	90,840	1.9	-	-
	839,937	17.7	984,696	16.9
Emerging Markets Equity Pool (s)	89,469	1.9	164,431	2.8
	929,406	19.6	1,149,127	19.7
Private Equities (t)	66,556	1.4	53,044	0.9
INFLATION SENSITIVE				
Private Real Estate Pool (u) (Schedule E)	392,390	8.3	417,165	7.1
Real rate of return bonds (v)	231,387	4.9	323,992	5.5
Private Income Pools (w)	138,010	2.9	90,979	1.6
Collaterized Commodity Futures Pool (x)	49,508	1.0	96,488	1.7
Timberland Pool (y)	29,415	0.6	29,319	0.5
Total investments	4,747,917	100.0	5,845,067	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 high quality 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 Investable 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 only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada while the UFIP portfolio is comprised of high quality 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, EAFE equities, major foreign currencies and styles and sectors. At December 31, 2008, 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) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

i) The Canadian Equity Enhanced Index Pool consist of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

Note 3 (continued)

k) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the externally managed Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.

m) The U.S. Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

n) The Portable Alpha U.S. Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 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. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

o) The U.S. Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by a manager with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

p) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

q) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four- year period. The Pool provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

r) The Structured Transition Pool provides exposure to non-North American markets through the use of structured investments such as foreign equity index swaps.

s) 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.

t) The Private Equity Pool 2002 and Private Equity Pool 2004 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.

Note 3 (continued)

u) 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.

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

w) 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.

x) 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.

y) 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.

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, 2008.

($ thousands)

	2008					2007	
	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	94	6	-	$ 1,249,239	$ 15,258	$ 1,404,732	$ (17,146)
Credit default swap contracts	8	43	49	660,982	(15,377)	1,226,597	(3,646)
Forward foreign exchange contracts	100	-	-	582,697	(33,265)	638,878	1,523
Interest rate swap contracts	14	57	29	358,448	(18,137)	669,926	(3,098)
Cross-currency interest rate swaps	20	63	17	306,981	(5,456)	364,785	15,099
Futures contracts	100	-	-	240,148	34,844	327,677	8,428
Commodity index swaps	100	-	-	50,930	-	96,742	-
Bond index swap contracts	100	-	-	29,639	779	160,207	5,591
Swap option contracts	-	-	-	-	-	660,356	125
				$ 3,479,064	$ (21,354)	$ 5,549,900	$ 6,876

(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) 2008	2007
Employers	$ 11,761	$ 10,787
Employees	11,776	10,808
	$ 23,537	$ 21,595

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2006 as at December 31, 2005 by AON Consulting Inc. and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $5,958,356 (2007: $5,958,439) 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 return, inflation rate and salary escalation rate.

The actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate and salary escalation rate assumptions for the accounting extrapolation differ from those assumptions previously established for funding.

The major assumptions used for accounting purposes were:

	2005 Valuation and 2008 Extrapolation	2005 Valuation and 2007 Extrapolation
	%	
Investment rate of return	7.00	7.00
Inflation rate	2.25	3.25
Salary escalation rate*	3.50	3.75

* In addition to merit and promotion.

b) NET EXPERIENCE LOSSES

Net experience losses of $4,580 (2007:$22,001) arose from differences between the actuarial assumptions used in the valuation and actual results.

Note 7 (continued)

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably 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, 2008:

	($ 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	363,000	0.62
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	283,000	0.94
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	885,000	2.36

* The current service cost as a % of pensionable earnings as determined by the December 31, 2005 valuation was 11.52%.

NOTE 8 NET INVESTMENT (LOSS) INCOME

a) INVESTMENT (LOSS) INCOME

Net investment (loss) income of the Plan is comprised of the following:

	($ thousands) 2008	2007
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ (1,320,875)	$ (110,512)
Interest income	127,478	151,371
Dividend income	63,261	61,777
Real estate operating income	18,168	17,218
Securities lending income	4,156	2,161
	(1,107,812)	122,015
Investment expenses	(19,258)	(17,945)
	$ (1,127,070)	$ 104,070

The following is a summary of the Plan's proportionate share of net investment (loss) income by type of investments:

	($ thousands) 2008	2007
Private real estate	$ 20,498	$ 75,692
Fixed income securities	16,451	33,811
Private income	11,625	9,590
Private equities	(9,224)	2,875
Timberland	(4,318)	11,668
Collateralized commodity futures	(18,990)	10,287
Absolute return strategies	(53,370)	10,223
Canadian equities	(315,678)	86,983
United States equities	(370,060)	(129,441)
Non-North American equities	(404,004)	(7,618)
	$ (1,127,070)	$ 104,070

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Fifteen-year Compound Annualized Return
Time-weighted rates of return*				
Actual (loss) gain	(19.2%)	1.3%	2.3%	6.2%
*Policy Benchmark (loss) gain***	*(15.4%)*	*1.8%*	*2.3%*	*6.4%*
Value lost from active management	(3.8%)	(0.5%)	0.0%	(0.2%)

* 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.

Note 8 (continued)

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 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 and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands)	
	2008	**2007**
Total investment expenses	$ 19,258	$ 17,945
Investment expenses as a percentage of net assets	0.40%	0.31%
Investment expenses per member	$ 256	$ 249

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2008	**2007**
Current and optional service		
Employers	$ 160,051	$ 145,178
Employees	165,441	148,016
	$ 325,492	$ 293,194

NOTE 10 MEMBER SERVICE EXPENSES

	($ thousands)	
	2008	**2007**
General administration costs	$ 7,808	$ 6,529
Board costs	118	335
Actuarial fees	59	84
Other professional fees	91	74
	$ 8,076	$ 7,022
Member services expenses per member	$ 107	$ 97

General administration and Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

The Plan's share of Alberta Pensions Administration Corporation'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 8(b) and member service expenses per Note 10 are $27,334 (2007: $24,967) or $363 (2007: $346) per member and 0.57% (2007: 0.43%) 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 $5,248,000 at December 31, 2008 (2007 $5,743,000).

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 totalling 2.92% of pensionable earnings shared equally between employees and employers until December 31, 2020. The special payments have been included in the rates in effect at December 31, 2008 (see Note 1(b)).

NOTE 13 SUBSEQUENT EVENT – DECLINE IN FAIR VALUE INVESTMENTS

The fair value of the Plan’s investment is subject to significant market volatility due to the current economic crisis in global markets. In the two months subsequent to December 31, 2008, the Plan’s investments declined by approximately 7.6% to approximately $4,387,000 from $4,747,917 at December 31, 2008. To the extent that investments of the Plan may not recover these market related losses during the remaining ten months of 2009, the deficiency of the Plan would increase accordingly.

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by Alberta Pensions Administration Corporation, Alberta Investment Management Corporation and the Plan's actuary, and after consultation with the Public Service Pension Board.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

	($ thousands) Plan's Share	
	2008	2007
Deposits and short-term securities	$ 30,927	$ 4,052
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	6,791	244,188
Provincial		
Alberta, direct and guaranteed	120	344
Other Provincial, direct and guaranteed	373,348	165,886
Municipal	11,212	530
Corporate	598,557	920,677
	990,028	1,331,625
Receivable from sale of investments and accrued investment income	9,870	20,254
Accounts payable and accrued liabilities	(11,259)	(65)
	(1,389)	20,189
	$ 1,019,566	$ 1,355,866

(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 Government of Canada bonds includes the notional amount of Canada bond futures contracts totalling $132,663 (2007: $nil).

(b) Fixed income securities held as at December 31, 2008 had an average effective market yield of 5.2% per annum (2007: 5.6% per annum). The following term structure of these securities as at December 31, 2008 is based on principal amount:

	2008	2007
	%	
under 1 year	2	6
1 to 5 years	18	29
6 to 10 years	13	38
11 to 20 years	18	10
over 20 years	49	17
	100	**100**

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES Schedule B

	($ thousands) Plan's Share 2008	2007
Deposits and short-term securities	$ 18,410	$ 4,392
Public equities (a) (b)		
Consumer discretionary	38,870	50,219
Consumer staples	22,692	19,980
Energy	177,217	246,546
Financials	189,476	275,201
Health care	1,653	2,838
Industrials	39,812	51,810
Information technology	21,373	46,979
Materials	104,290	144,443
Telecommunication services	43,157	57,477
Utilities	8,328	8,725
	646,868	904,218
Pooled investment funds	22,651	37,947
Receivable from sale of investments and accrued investment income	12,537	7,453
Accounts payable and accrued liabilities	(16,481)	(3,441)
	(3,944)	4,012
	$ 683,985	$ 950,569

(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 $281,133 (2007: $341,333).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor’s Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	Plan's Share ($ thousands) 2008	Plan's Share ($ thousands) 2007
Deposits and short-term securities	$ 9,802	$ 16,758
Public equities (a) (b)		
Consumer discretionary	82,235	105,958
Consumer staples	113,701	109,447
Energy	118,629	139,060
Financials	136,707	202,136
Health care	141,144	140,134
Industrials	110,624	136,094
Information technology	148,141	189,794
Materials	32,532	44,285
Telecommunication services	34,159	38,299
Utilities	41,823	45,033
	959,695	1,150,240
Pooled investment funds	551	2,312
Receivable from sale of investments and accrued investment income	12,853	4,391
Accounts payable and accrued liabilities	(12,594)	(26,290)
	259	(21,899)
	$ 970,307	$ 1,147,411

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investments in United States public equities includes the notional amount of U.S. equity index swaps and futures contracts totalling $846,198 (2007: $833,619).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 25,086	$ 23,283
Public equities (a) (b)		
Consumer discretionary	78,770	118,926
Consumer staples	95,242	71,063
Energy	84,188	94,461
Financials	172,977	227,596
Health care	92,904	71,569
Industrials	94,653	155,850
Information technology	52,425	72,991
Materials	54,476	89,871
Telecommunication services	85,731	90,669
Utilities	44,800	48,743
	856,166	1,041,739
Pooled investment funds	44,654	88,130
Receivable from sale of investments	10,177	8,558
and accrued investment income	(6,677)	(12,583)
Accounts payable and accrued liabilities	3,500	(4,025)
	$ 929,406	$ 1,149,127

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investments in Non-North American public equities includes the notional amount of EAFE equity index swaps and futures contracts totalling $166,541 (2007: $118,718).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of the stock exchange on which stocks were purchased:

	($ thousands) Plan's Share	
	2008	**2007**
Japan	$ 198,315	$ 178,319
United Kingdom	167,221	193,841
France	94,699	107,509
Germany	69,606	100,179
Switzerland	65,325	68,835
Spain	37,545	39,441
Australia	35,436	40,831
Netherlands	27,860	45,683
Italy	27,554	33,420
Hong Kong	18,021	21,887
Other	114,584	211,794
	$ 856,166	$ 1,041,739

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands) Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 858	$ 462
Real estate (a)		
Office	176,601	186,706
Retail	113,584	131,360
Industrial	61,472	60,266
Residential	23,878	23,080
	375,535	401,412
Participation Units	13,309	15,092
Accrued income and accounts receivable	2,688	199
	$ 392,390	$ 417,165

(a) The following is a summary of the Plan's investments in real estate by geographic locations:

	($ thousands) Plan's Share	
	2008	**2007**
Ontario	$ 192,531	$ 216,629
Alberta	142,291	141,997
Quebec	32,591	34,401
British Columbia	8,122	8,385
	$ 375,535	$ 401,412

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise and the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Special Forces Pension Plan as at December 31, 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (Deficiency) for the year 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 audit.

I conducted my audit 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, 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
April 3, 2009

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2008

	($ thousands)	
	2008	**2007**
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,199,702	$ 1,475,924
Contributions receivable (Note 6)	3,333	2,801
	1,203,035	1,478,725
Liabilities		
Accounts payable	31	189
Net assets available for benefits	1,203,004	1,478,536
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,618,104	1,543,522
Indexing Fund	14,866	13,665
	1,632,970	1,557,187
Deficiency at end of year		
Plan Fund (Note 8) *	$ (429,966)	$ (78,651)

* The Plan Fund deficiency is comprised of a pre-1992 deficiency of $243,888 (2007: $85,843) and a post-1991 deficiency of $186,078 (2007: surplus $7,192).

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

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2008

($ thousands)

	2008			2007
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Net investment (loss) income (Note 9)				
Investment (loss) income	$ (252,746)	$ (2,859)	$ (255,605)	$ 32,550
Investment expenses	(4,133)	-	(4,133)	(4,181)
	(256,879)	(2,859)	(259,738)	28,369
Contributions (Note 10)	57,904	4,059	61,963	55,095
	(198,975)	1,200	(197,775)	83,464
Decrease in assets				
Pension benefits	72,490	-	72,490	65,724
Refunds and transfers	4,247	-	4,247	5,530
Member service expenses (Note 11)	1,020	-	1,020	934
	77,757	-	77,757	72,188
(Decrease) Increase in net assets	(276,732)	1,200	(275,532)	11,276
Net assets available for benefits at beginning of year	1,464,870	13,666	1,478,536	1,467,260
Net assets available for benefits at end of year	$ 1,188,138	$ 14,866	$ 1,203,004	$ 1,478,536

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

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2008

	2008			2007
($ thousands)	**Pre-1992**	**Post-1991**	**Total**	**Total**
Increase in liability for accrued benefits				
Interest accrued on benefits	$ 50,184	$ 47,723	$ 97,907	$ 93,792
Benefits earned	46	45,090	45,136	40,206
Net increase (decrease) due to actuarial assumptions changes (Note 7a)	(11,420)	13,267	1,847	41,108
Net experience losses (Note 7b)	-	-	-	3,726
Cost-of-living indexing adjustments and interest	4,711	2,918	7,629	15,626
	43,521	108,998	152,519	194,458
Decrease in liability for accrued benefits				
Benefits, transfers and interest	59,700	17,036	76,736	71,257
	59,700	17,036	76,736	71,257
Net increase (decrease) in liability for accrued benefits	(16,179)	91,962	75,783	123,201
Liability for accrued benefits at beginning of year	814,141	743,046	1,557,187	1,433,986
Liability for accrued benefits at end of year (Note 7)	$ 797,962	$ 835,008	$ 1,632,970	$ 1,557,187

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

Statement of Changes in Surplus (Deficiency)

For the year ended December 31, 2008

($ thousands)

	2008			2007
	Pre-1992	**Post-1991**	**Total**	**Total**
(Deficiency) surplus at beginning of year	$ (85,843)	$ 7,192	$ (78,651)	$ 33,274
(Decrease) increase in net assets available for benefits	(174,224)	(101,308)	(275,532)	11,276
Net (decrease) increase in liability for accrued benefits	16,179	(91,962)	(75,783)	(123,201)
Deficiency at end of year (Note 14)	$ (243,888)	$ (186,078)	$ (429,966)	$ (78,651)

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

Notes to the Financial Statements

December 31, 2008

(All dollar amounts in thousands, except per member data)

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*, Chapter P-41, Revised Statutes of Alberta 2000 and 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 a Board of Trustees.

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan. 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, 2008 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

The Special Forces Pension Board (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, 2006. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2008 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.

Indexing Fund

Benefit payment increases for post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) are funded by contributions to the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2008 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. To date, contributions to the Indexing Fund have provided COLA for service from 1992 to 2000.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

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 federal *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, 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 contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

g) GUARANTEE

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund (see Note 12). As of December 31, 2008, 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. 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 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 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 then extrapolated, on an annual basis, to year-end. It 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 valuation 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 E)

	2008 Fair Value ($ thousands)	2008 %	2007 Fair Value ($ thousands)	2007 %
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 10,539	0.9	$ 8,415	0.6
Universe Fixed Income Pool (b)	117,420	9.8	262,533	17.8
Canadian Long Term Government Bond Pool (b)	190,652	15.8	156,955	10.6
Private Mortgage Pool (c)	58,618	4.9	61,769	4.2
Real rate of return bonds (d)	27,880	2.3	29,633	2.0
Currency Alpha Pool (e)	3,251	0.3	2,103	0.1
Fixed Income Overlay Strategy Pool (f)	(29,877)	(2.5)	-	-
Tactical Asset Allocation Pool	878	0.1	2,375	0.2
	379,361	31.6	523,783	35.5
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	31,119	2.6	47,662	3.2
Canadian Pooled Equities Fund (h)	40,849	3.4	58,547	3.9
Canadian Large Cap Equity Pool (i)	13,672	1.1	19,419	1.3
Canadian Small Cap Equity Pool (i)	23,682	2.0	35,483	2.4
Canadian Equity Enhanced Index Pool (j)	19,939	1.7	28,734	1.9
Canadian Multi-Cap Pool (k)	43,966	3.6	63,869	4.3
Growing Equity Income Pool (l)	8,459	0.7	12,203	1.0
Private Equity Pool	-	-	992	0.1
Canadian Overlay Strategy Pool (f)	11,751	1.0	-	-
	193,437	16.1	266,909	18.2
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	135,596	11.3	168,537	11.4
U.S. Small/Mid Cap Equity Pool (n)	35,016	2.9	44,199	3.0
Portable Alpha U.S. Pool (o)	45,065	3.7	47,495	3.2
Growing Equity Income Pool (l)	723	0.1	2,649	-
U.S. Overlay Strategy Pool (f)	3,625	0.3	-	-
	220,025	18.3	262,880	17.6
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	172,141	14.3	225,414	15.3
Emerging Markets Equity Pool (q)	5,469	0.5	10,052	0.7
EAFE Structured Equity Pool (r)	27,366	2.3	35,295	2.4
Structured Transition Pool (s)	745	0.1	-	-
EAFE Overlay Strategy Pool (f)	22,664	1.9	-	-
	228,385	19.1	270,761	18.4
Real Estate Equities (Schedule E)				
Private Real Estate Pool (t)	113,600	9.5	111,891	7.6
Alternative Investments - Equities				
Private Income Pools (u)	35,654	3.0	23,681	1.6
Timberland Pools (v)	7,627	0.6	7,602	0.5
Global Private Equities (w)	21,613	1.8	8,417	0.6
	64,894	5.4	39,700	2.7
Total equities	820,341	68.4	952,141	64.5
Total investments	$ 1,199,702	100.0	$ 1,475,924	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 high quality 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 high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality 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 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.

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, EAFE equities, major foreign currencies and styles and sectors. At December 31, 2008, 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) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

i) The Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

j) The Canadian Equity Enhanced Index Pool consist of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

k) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 (continued)

l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.

m) The U.S. Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

n) The U.S. Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

o) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 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. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

p) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

q) 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.

r) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four- year period. The Pool provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

s) The Structured Transition Pool provides exposure to non-North American markets through the use of structured investments such as foreign equity index swaps.

t) 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.

u) 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.

v) 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. The performance objective is to earn a return higher than CPI plus 4.0%.

w) The Global Private Equity Pool is 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 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:

Fixed income securities	29.0%
Canadian equities	17.0%
U.S. equities	17.5%
Non-North American equities	17.5%
Real estate	7.0%
Private income	5.0%
Absolute return strategies	5.0%
Timberland	2.0%

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 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, 2008:

($ thousands)

	2008					2007	
	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	94	6	-	$ 295,033	$ 3,478	$ 328,621	$ (4,000)
Credit default swap contracts	8	44	48	175,941	(4,001)	280,126	(833)
Forward foreign exchange contracts	100	-	-	113,003	(2,993)	122,896	(537)
Interest rate swap contracts	14	57	29	88,030	(4,380)	157,308	(752)
Cross-currency interest rate swaps	19	63	18	69,902	(2,211)	84,373	4,116
Futures contracts	100	-	-	58,345	8,202	80,276	2,062
Bond index swap contracts	100	-	-	7,994	210	55,914	1,331
Swap option contracts	-	-	-	-	-	150,276	28
				$ 808,248	$ (1,695)	$ 1,259,790	$ 1,415

(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)

	2008	2007
Contributions receivable		
Employers	$ 1,529	$ 1,193
Employees	1,399	1,303
Province of Alberta	378	239
	3,306	2,735
Payable to Alberta Pensions Administration Corp.	(41)	(5)
Receivable from sale of investments and accrued investment income	68	71
	$ 3,333	$ 2,801

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2007 as at December 31, 2006 by Hewitt and Associates and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $1,632,970 (2007: $1,557,187) 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 return, inflation rate, salary escalation rate and the inflation rate.

The actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate and salary escalation rate assumptions for the accounting extrapolation differ from those assumptions previously established for funding.

The major assumptions used for accounting purposes were:

	2006 Valuation and 2008 Extrapolation	2006 Valuation and 2007 Extrapolation
	%	
Investment return	6.50	6.50
Inflation rate	2.25	2.50
Salary escalation rate*		
For 2007	3.90	3.90
For 2008	4.40	4.40
Thereafter	3.50	3.00

* In addition to merit and promotion.

b) NET EXPERIENCE LOSSES

Net experience losses of $nil (2007: $3,726) arose from differences between the actuarial assumptions used in the valuation and actual results.

Note 7 (continued)

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably 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, 2008:

($ 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	97,000	0.0 **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	40,000	1.8
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	252,000	4.2

* The current service cost as a % of pensionable earnings as determined by the December 31, 2006 valuation was 16.48%.

** 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, 2008:

($ thousands)

	2008			**2007**
	Pre-1992	**Post-1991**	**Total**	**Total**
Plan Fund net assets available for benefits	$ 554,075	$ 634,063	$ 1,188,138	$ 1,464,870
Plan Fund accrued benefits	797,963	820,141	1,618,104	1,543,521
Plan Fund Deficiency (Note 14)	$ (243,888)	$ (186,078)	$ (429,966)	$ (78,651)

As at December 31, 2008, the Indexing Fund held investments of $14,866 (2007: $13,666) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is $nil (2007: $nil).

This plan fund deficiency is for accounting purposes and may differ from the plan fund deficiency for funding purposes.

NOTE 9 NET INVESTMENT (LOSS) INCOME

a) INVESTMENT (LOSS) INCOME

Net investment (loss) income is comprised of the following:

	($ thousands) 2008	2007
Investment (loss) income		
Net realized and unrealized loss on investments including those arising from derivative transactions	$ (310,073)	$ (26,498)
Interest income	33,149	39,688
Dividend income	14,902	14,135
Real estate income	5,258	4,616
Securities lending income	1,159	609
	(255,605)	32,550
Investment expenses	(4,133)	(4,181)
Net investment (loss) income	$ (259,738)	$ 28,369

The following is a summary of the Plan's proportionate share of net investment (loss) income by type of investments:

	($ thousands) 2008	2007
Real estate	$ 5,886	$ 20,285
Private income	3,049	2,501
Private equities	(1,905)	192
Fixed income securities	53	11,811
Timberland	(1,145)	3,025
United States equities	(80,393)	(28,504)
Non-North American equities	(91,790)	(7,488)
Canadian equities	(93,493)	26,547
	$ (259,738)	$ 28,369

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return	Fifteen -Year Compound Annualized Return
Time-weighted rates of return*				
Actual (loss) gain	(17.7%)	1.9%	2.6%	6.4%
*Policy Benchmark (loss) gain***	(14.2%)	*2.2%*	*2.4%*	*6.4%*
Value (lost) added from active management	(3.5%)	(0.3%)	0.2%	0.0%

* The measure involves the calculation of the return realized by the Plan over a specified period and is a 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.

Note 9 (continued)

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 and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands) 2008	2007
Total investment expenses	$ 4,133	$ 4,181
Investment expenses as a percentage of net assets	0.34%	0.28%
Investment expenses per member	$ 730	$ 776

NOTE 10 CONTRIBUTIONS

	($ thousands) 2008	2007
Current and optional service		
Employers	$ 26,942	$ 24,063
Employees	24,578	21,956
Unfunded liability		
Employers	3,323	2,880
Employees	3,323	2,880
Province of Alberta	3,433	2,975
Transfers from other plans (net)	364	341
	$ 61,963	$ 55,095

NOTE 11 MEMBER SERVICE EXPENSES

	($ thousands) 2008	2007
General administration costs	$ 950	$ 797
Actuarial fees	70	137
	$ 1,020	$ 934
Member service expenses per member	$ 180	$ 174

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation'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 $5,153 (2007: 5,115) or $910 (2007: $950) per member and 0.43% (2007: 0.35%) of net assets under administration.

NOTE 13 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2008		
Up to 4 hours	$ 210	$ 157
4 to 8 hours	367	278
Over 8 hours	576	409

	2008	2007
During 2008, the following amounts were paid:		
Remuneration		
Chair	$ 5,826	$ 2,450
Members	27,240	19,926
Travel expenses		
Chair	968	2,067
Members	18,821	12,713

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, 2008, 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 $1,321,800 at December 31, 2008 (2007: $1,454,000).

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, 2008 (see Note 1(b)).

NOTE 16 SUBSEQUENT EVENT – DECLINE IN FAIR VALUE INVESTMENTS

The fair value of the Plan's investment is subject to significant market volatility due to the current economic crisis in global markets. In the two months subsequent to December 31, 2008, the Plan's investments declined by approximately 8.6% to approximately $1,104,000 from $1,199,702 at December 31, 2008. To the extent that investments of the Plan may not recover these market related losses during the remaining ten months of 2009, the deficiency of the Plan would increase accordingly.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by Alberta Pensions Administration Corporation, Alberta Investment Management Corporation and the Plan's actuary, and after consultation with the Special Forces Pension Board.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

	($ thousands) Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 23,093	$ 13,591
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	40,076	109,761
Provincial		
Alberta, direct and guaranteed	32	78
Other Provincial, direct and guaranteed	138,159	129,998
Municipal	4,431	3,454
Corporate	173,609	260,682
	356,307	503,973
Receivable from sale of investments and accrued investment income	3,631	6,686
Accounts payable and accrued liabilities	(3,670)	(467)
	(39)	6,219
	$ 379,361	$ 523,783

(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 Government of Canada bonds includes the notional amount of Canada bond futures contracts totalling $33,099 (2007: $nil).

(b) Fixed income securities held as at December 31, 2008 had an average effective market yield of 5.6% per annum (2007: 5.8% per annum). The following term structure of these securities as at December 31, 2008 is based on principal amount:

	2008	**2007**
	%	**%**
under 1 year	2	3
1 to 5 years	17	19
6 to 10 years	14	29
11 to 20 years	14	14
over 20 years	53	35
	100	100

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

Schedule B

	($ thousands) Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 4,818	$ 1,854
Public equities (a) (b)		
Consumer discretionary	12,130	15,177
Consumer staples	6,484	5,864
Energy	49,112	66,346
Financials	50,125	71,906
Health care	1,264	1,142
Industrials	14,616	20,004
Information technology	6,485	13,488
Materials	29,682	42,098
Telecommunication services	10,701	13,850
Utilities	2,922	2,875
	183,521	252,750
Pooled investment funds	5,595	9,730
Private equity pool	-	992
Receivable from sale of investments and accrued investment income	4,309	2,579
Accounts payable and accrued liabilities	(4,806)	(996)
	(497)	1,583
	$ 193,437	$ 266,909

(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 Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling $71,188 (2007: $83,751).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 2,491	$ 4,032
Public equities (a) (b)		
Consumer discretionary	18,793	24,664
Consumer staples	24,990	24,308
Energy	26,150	31,024
Financials	31,457	46,079
Health care	31,962	32,461
Industrials	25,453	31,383
Information technology	33,744	43,234
Materials	7,743	10,683
Telecommunication services	7,539	8,495
Utilities	9,622	10,614
	217,453	262,945
Pooled investment funds	170	740
Receivable from sale of investments and accrued investment income	2,676	1,033
Accounts payable and accrued liabilities	(2,765)	(5,870)
	(89)	(4,837)
	$ 220,025	$ 262,880

(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 United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling $182,725 (2007: $179,830).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

	($ thousands) Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 6,264	$ 5,158
Public equities (a) (b)		
Consumer discretionary	20,308	30,664
Consumer staples	25,002	18,589
Energy	21,503	23,321
Financials	42,654	55,530
Health care	24,397	18,581
Industrials	24,577	40,018
Information technology	12,994	17,913
Materials	13,840	22,429
Telecommunication services	21,880	22,201
Utilities	11,886	12,642
	219,041	261,888
Pooled investment funds	2,730	5,553
Receivable from sale of investments and accrued investment income	2,131	1,364
Accounts payable and accrued liabilities	(1,781)	(3,202)
	350	(1,838)
	$ 228,385	$ 270,761

(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 Non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $49,734 (2007: $37,656).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index. The following is a summary of the Plan's share of non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	($ thousands) Plan's Share	
	2008	**2007**
Japan	$ 52,733	$ 47,383
United Kingdom	44,366	51,500
France	25,099	28,461
Germany	18,496	26,475
Switzerland	17,375	18,217
Spain	9,963	10,473
Australia	9,525	10,981
Italy	7,339	8,891
Netherlands	7,328	11,970
Hong Kong	4,247	5,343
Other	22,570	42,194
	$ 219,041	$ 261,888

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

	($ thousands)	
	Plan's Share	
	2008	**2007**
Deposits and short-term securities	$ 249	$ 124
Real estate (a)		
Office	51,127	50,078
Retail	32,883	35,233
Industrial	17,796	16,164
Residential	6,913	6,191
	108,719	107,666
Pooled investment funds	3,854	4,048
Accrued income and accounts receivable	778	53
	$ 113,600	$ 111,891

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2008	**2007**
Ontario	$ 55,739	$ 58,104
Alberta	41,194	38,086
Quebec	9,435	9,227
British Columbia	2,351	2,249
	$ 108,719	$ 107,666

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2008

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2008 and the Statement of Changes in Net Assets Available for Benefits for the year 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 audit.

I conducted my audit 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, 2008 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

March 16, 2009
Edmonton, Alberta

[Original signed by Fred J. Dunn, FCA]
Auditor General

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2008

	($ thousands) 2008	2007
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 11,193	$ 9,080
Refundable income tax (Note 1(f) and Note 6)	13,778	11,089
Contributions receivable	25	24
Other receivables	9	10
	25,005	20,203
Liabilities		
Income tax payable	15	10
Other payables	7	10
	22	20
Net assets available for benefits	24,983	20,183
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	(58,676)	(48,462)
SRP Reserve Fund (Note 8)	26,582	29,789
Surplus (deficiency) at end of year	$ (7,111)	$ 1,510

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

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2008

	($ thousands) 2008	2007
Increase in assets		
Contributions (Note 9)	$ 6,141	$ 4,435
Net investment (loss) income (Note 10)		
Investment (loss) income	(159)	160
Investment expenses	(32)	(38)
	5,950	4,557
Decrease in assets		
Benefits and refunds	846	610
Administration expenses (Note 11)	304	238
	1,150	848
Increase in net assets	4,800	3,709
Net assets available for benefits at beginning of year	20,183	16,474
Net assets available for benefits at end of year	$ 24,983	$ 20,183

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

Notes to the Financial Statements

December 31, 2008

(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 federal *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, 2008 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 Government 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 Government.

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. 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 methods used to determine fair value of investments held either by the plan or by pooled investment funds are explained in the following paragraphs:

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.

Note 2 (continued)

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

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 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 then extrapolated, on an annual basis, to year-end. It 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 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)			
	2008		**2007**	
	Fair Value		**Fair Value**	
		%		%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 516	4.6	$ 330	5.8
Universe Fixed Income Pool (b)	9,025	80.6	7,062	73.8
Real rate of return bonds (c)	1,652	14.8	1,688	20.4
	$ 11,193	100.0	$ 9,080	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 high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

b) The Universe Fixed Income Pool 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 high quality 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 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 nominal and real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Minister has established a benchmark policy asset mix of 45% fixed income instruments and 55% equities.

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. 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, 2008.

($ thousands)

	2008					2007	
	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	4	44	52	$ 12,145	$ (193)	$ 6,858	$ (18)
Bond index swap contracts	100	-	-	614	16	639	6
Interest rate swap contracts	10	-	90	569	(1)	2,915	(1)
Cross-currency interest rate swaps	-	31	69	536	(35)	475	55
Forward foreign exchange contracts	100	-	-	167	(19)	138	2
Futures contracts	100	-	-	62	4	400	11
Swap option contracts	-	-	-	-	-	4,043	1
				$ 14,093	$ (228)	$ 15,468	$ 56

(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)

	2008	2007
Refundable income tax at beginning of year	$ 11,089	$ 9,404
Tax on employees and employers contributions received	3,070	2,212
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(381)	(527)
Refundable income tax at end of year	$ 13,778	$ 11,089

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2006 as at December 31, 2005 by AON Consulting Inc. and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $58,676 (2007: $48,462) 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 actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate and salary escalation rate assumptions for the accounting extrapolation differ from those assumptions previously established for funding.

The major assumptions used for accounting purposes were:

	2005 Valuation and 2008 Extrapolation	2005 Valuation and 2007 Extrapolation
	%	
Discount rate *	4.50	4.50
Inflation rate	2.25	2.75
Investment rate of return	6.00	6.00
Salary escalation rate **	3.50	3.25
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 merit and promotion

The following table shows the principal components of the change in the actuarial value of accrued benefits:

	($ thousands) 2008	2007
Actuarial value of accrued benefits at beginning of year	$ 48,462	$ 40,146
Interest accrued on benefits	2,379	1,950
Benefits earned	9,646	6,976
Net change due to changes in actuarial assumptions	(965)	-
Benefits and refunds paid	(846)	(610)
Actuarial value of accrued benefits at end of year	$ 58,676	$ 48,462

Note 7 (continued)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably 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, 2008:

	($ 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	4,524	693
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	32,302	8,876
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	12,764	2,487

* 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, 2008, the SRP Reserve Fund had net assets with fair value totalling $26,582 (2007: $29,789), comprising of $26,568 (2007: $29,553) in portfolio investments and $14 (2007: $236) in receivables. The decrease during the year of $3,207 (2007: increase $2,419) is attributed to contributions from employers of $3,364 (2007: $2,167) and investment loss of $6,571(2007: gain $252).

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2008	**2007**
Current and optional service		
Employers	$ 3,074	$ 2,217
Employees	3,067	2,218
	$ 6,141	$ 4,435

NOTE 10 NET INVESTMENT (LOSS) INCOME

a) INVESTMENT (LOSS) INCOME

Net investment (loss) income of the Plan is comprised of the following:

	($ thousands)	
	2008	2007
Net realized and unrealized (loss) gains on investments, including those arising from derivative transactions	$ (610)	$ (202)
Interest income	446	360
Security lending	5	2
	(159)	160
Investment (loss) income (Note 10 (b))	(32)	(38)
	$ (191)	$ 122

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 Alberta Investment Management Corporation 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 and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands)	
	2008	2007
Investment expenses	$ 32	$ 38
Investment expenses as a percentage of net assets	0.26%	0.42%
Investment expenses per member	$ 22	$ 27

NOTE 11 ADMINISTRATION EXPENSES

Administration expenses of $304 (2007: $238) were charged to the Plan on a cost recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation'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 10(b) and administration expenses per Note 11 are $336 (2007: $276) or $232 (2007: $197) per member and 1.34% (2007: 1.37%) of net assets under administration.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2008 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 Alberta Pensions Administration Corporation, Alberta Investment Management Corporation 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 2008	($ thousands) Plan's Share 2007
Deposits and short-term securities	$ 878	$ 354
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	3,277	3,183
Provincial		
Alberta, direct and guaranteed	2	2
Other, direct and guaranteed	1,315	953
Municipal	1	3
Corporate, public and private	5,871	4,467
	10,466	8,608
Receivable from sale of investments and accrued investment income	81	118
Accounts payable and accrued liabilities	(232)	-
	(151)	118
	$ 11,193	$ 9,080

(a) Fixed income securities held as at December 31, 2008 had an average effective market yield of 6.2% per annum (2007: 4.96% per annum). The following term structure of these securities as at December 31, 2008 was based on the principal amount:

	2008	2007
	%	
under 1 year	4	5
1 to 5 years	30	27
6 to 10 years	26	28
11 to 20 years	18	17
over 20 years	22	23
	100	**100**

Alphabetical List of Entities' Financial Statements in Ministry 2008-09 Annual Reports

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Access to the Future Fund	Advanced Education and Technology
Agriculture Financial Services Corporation	Agriculture and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Cancer Prevention Legacy Fund	Finance and Enterprise
Alberta Capital Finance Authority	Finance and Enterprise
Alberta Energy and Utilities Board[1]	Energy
Alberta Enterprise Corporation[2]	Advanced Education and Technology
Alberta Foundation for the Arts	Culture and Community Spirit
Alberta Gaming and Liquor Commission	Solicitor General and Public Security
Alberta Heritage Foundation for Medical Research Endowment Fund	Finance and Enterprise
Alberta Heritage Savings Trust Fund	Finance and Enterprise
Alberta Heritage Scholarship Fund	Finance and Enterprise
Alberta Heritage Science and Engineering Research Endowment Fund	Finance and Enterprise
Alberta Historical Resources Foundation	Culture and Community Spirit
Alberta Insurance Council	Finance and Enterprise
Alberta Investment Management Corporation[3]	Finance and Enterprise
Alberta Livestock and Meat Agency[4]	Agriculture and Rural Development
Alberta Local Authorities Pension Plan Corporation	Finance and Enterprise
Alberta Pensions Administration Corporation	Finance and Enterprise
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Advanced Education and Technology
Alberta Risk Management Fund	Finance and Enterprise
Alberta School Foundation Fund	Education
Alberta Securities Commission	Finance and Enterprise
Alberta Social Housing Corporation	Housing and Urban Affairs
Alberta Sport, Recreation, Parks and Wildlife Foundation	Tourism, Parks and Recreation
Alberta Treasury Branches	Finance and Enterprise
Alberta Utilities Commission[1]	Energy
ATB Insurance Advisors Inc.	Finance and Enterprise
ATB Investment Management Inc.	Finance and Enterprise
ATB Investment Services Inc.	Finance and Enterprise
ATB Securities Inc.	Finance and Enterprise
Child and Family Services Authorities:	Children and Youth Services
Calgary and Area Child and Family Services Authority	
Central Alberta Child and Family Services Authority	
East Central Alberta Child and Family Services Authority	
Edmonton and Area Child and Family Services Authority	
North Central Alberta Child and Family Services Authority	
Northeast Alberta Child and Family Services Authority	
Northwest Alberta Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Southwest Alberta Child and Family Services Authority	
Métis Settlements Child and Family Services Authority	
C-FER Technologies (1999) Inc.	Advanced Education and Technology
Climate Change and Emissions Management Fund[5]	Environment

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Credit Union Deposit Guarantee Corporation	Finance and Enterprise
Colleges:	Advanced Education and Technology
Alberta College of Art and Design	
Bow Valley College	
Grande Prairie Regional College	
Grant MacEwan College	
Keyano College	
Lakeland College	
Lethbridge Community College	
Medicine Hat College	
Mount Royal College	
NorQuest College	
Northern Lakes College	
Olds College	
Portage College	
Red Deer College	
Department of Advanced Education and Technology	Advanced Education and Technology
Department of Agriculture and Rural Development	Agriculture and Rural Development
Department of Children and Youth Services	Children and Youth Services
Department of Culture and Community Spirit	Culture and Community Spirit
Department of Education	Education
Department of Energy	Energy
Department of Finance and Enterprise	Finance and Enterprise
Department of Environment	Environment
Department of Health and Wellness	Health and Wellness
Department of Housing and Urban Affairs	Housing and Urban Affairs
Department of Municipal Affairs	Municipal Affairs
Department of Seniors and Community Supports	Seniors and Community Supports
Department of Solicitor General and Public Security	Solicitor General and Public Security
Department of Sustainable Resource Development	Sustainable Resource Development
Department of Tourism, Parks and Recreation	Tourism, Parks and Recreation
Energy Resources Conservation Board[1]	Energy
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance and Enterprise
Government House Foundation	Culture and Community Spirit
Historic Resources Fund	Culture and Community Spirit
Human Rights, Citizenship and Multiculturalism Education Fund	Culture and Community Spirit
iCORE Inc.	Advanced Education and Technology
Lottery Fund	Solicitor General and Public Security
Ministry of Aboriginal Relations[6]	Aboriginal Relations
Ministry of Advanced Education and Technology	Advanced Education and Technology
Ministry of Agriculture and Rural Development	Agriculture and Rural Development
Ministry of Children and Youth Services	Children and Youth Services
Ministry of Culture and Community Spirit	Culture and Community Spirit
Ministry of Education	Education
Ministry of Employment and Immigration[6]	Employment and Immigration
Ministry of Energy	Energy
Ministry of Environment	Environment
Ministry of Executive Council[6]	Executive Council
Ministry of Finance and Enterprise	Finance and Enterprise

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Ministry of Health and Wellness	Health and Wellness
Ministry of Housing and Urban Affairs	Housing and Urban Affairs
Ministry of Infrastructure[6]	Infrastructure
Ministry of International and Intergovernmental Relations[6]	International, and Intergovernmental Relations
Ministry of Justice[6]	Justice
Ministry of Municipal Affairs	Municipal Affairs
Ministry of Seniors and Community Supports	Seniors and Community Supports
Ministry of Service Alberta[6]	Service Alberta
Ministry of Solicitor General and Public Security	Solicitor General and Public Security
Ministry of Sustainable Resource Development	Sustainable Resource Development
Ministry of Tourism, Parks, and Recreation	Tourism, Parks, and Recreation
Ministry of Transportation[6]	Transportation
Ministry of the Treasury Board[6]	Treasury Board
N.A. Properties (1994) Ltd.	Finance and Enterprise
Natural Resources Conservation Board	Sustainable Resource Development
Persons with Developmental Disabilities Community Boards:	Seniors and Community Supports
Calgary Region Community Board	
Central Region Community Board	
Edmonton Region Community Board	
Northeast Region Community Board	
Northwest Region Community Board	
South Region Community Board	
Provincial Judges and Masters in Chambers Reserve Fund	Finance and Enterprise
Regional Health Authorities and Provincial Health Boards:	Health and Wellness
Alberta Cancer Board	
Alberta Mental Health Board	
Aspen Regional Health Authority	
Calgary Health Region	
Capital Health	
Chinook Regional Health Authority	
David Thompson Regional Health Authority	
East Central Health	
Health Quality Council of Alberta	
Northern Lights Health Region	
Peace Country Health	
Palliser Health Region	
Safety Codes Council	Municipal Affairs
School Boards and Charter Schools:	Education
Almadina School Society	
Aspen View Regional Division No. 19	
Aurora School Ltd.	
Battle River Regional Division No. 31	
Black Gold Regional Division No. 18	
Boyle Street Education Centre	
Buffalo Trail Public Schools Regional Division No. 28	
Calgary Arts Academy Society	
Calgary Girls' School Society	
Calgary Roman Catholic Separate School District No. 1	
Calgary School District No. 19	

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	***Ministry Annual Report***
Calgary Science School Society	
Canadian Rockies Regional Division No. 12	
CAPE-Centre for Academic and Personal Excellence Institute	
Chinook's Edge School Division No. 73	
Christ the Redeemer Catholic Separate Regional Division No. 3	
Clearview School Division No. 71	
East Central Alberta Catholic Separate Schools Regional Division No. 16	
East Central Francophone Education Region No. 3	
Edmonton Catholic Separate School District No. 7	
Edmonton School District No. 7	
Elk Island Catholic Separate Regional Division No. 41	
Elk Island Public Schools Regional Division No. 14	
Evergreen Catholic Separate Regional Division No. 2	
FFCA Charter School Society	
Foothills School Division No. 38	
Fort McMurray Roman Catholic Separate School District No. 32	
Fort McMurray School District No. 2833	
Fort Vermilion School Division No. 52	
Golden Hills School Division No. 75	
Grande Prairie Public School District No. 2357	
Grande Prairie Roman Catholic Separate School District No. 28	
Grande Yellowhead Regional Division No. 35	
Grasslands Regional Division No. 6	
Greater North Central Francophone Education Region No. 2	
Greater Southern Public Francophone Education Region No. 4	
Greater Southern Separate Catholic Francophone Education Region No. 4	
Greater St. Albert Catholic Regional Division No. 29	
High Prairie School Division No. 48	
Holy Family Catholic Regional Division No. 37	
Holy Spirit Roman Catholic Separate Regional Division No. 4	
Horizon School Division No. 67	
Lakeland Roman Catholic Separate School District No. 150	
Lethbridge School District No. 51	
Living Waters Catholic Regional Division No. 42	
Livingstone Range School Division No. 68	
Medicine Hat Catholic Separate Regional Division No. 20	
Medicine Hat School District No. 76	
Moberly Hall School Society	
Mother Earth's Children's Charter School Society	
New Horizons Charter School Society	
Northern Gateway Regional Division No. 10	
Northern Lights School Division No. 69	
Northland School Division No. 61	
Northwest Francophone Education Region No. 1	
Palliser Regional Division No. 26	
Parkland School Division No. 70	
Peace River School Division No. 10	
Peace Wapiti School Division No. 76	

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	*Ministry Annual Report*
Pembina Hills Regional Division No. 7	
Prairie Land Regional Division No. 25	
Prairie Rose School Division No. 8	
Red Deer Catholic Regional Division No. 39	
Red Deer School District No. 104	
Rocky View School Division No. 41	
St. Albert Protestant Separate School District No. 6	
St. Paul Education Regional Division No. 1	
St. Thomas Aquinas Roman Catholic Separate Regional Division No. 38	
Sturgeon School Division No. 24	
Suzuki Charter School Society	
Westmount Charter School Society	
Westwind School Division No. 74	
Wetaskiwin Regional Division No. 11	
Wild Rose School Division No. 66	
Wolf Creek School Division No. 72	
Supplementary Retirement Plan Reserve Fund	Finance and Enterprise
Technical Institutes and The Banff Centre:	Advanced Education and Technology
Northern Alberta Institute of Technology	
Southern Alberta Institute of Technology	
The Banff Centre for Continuing Education	
Universities:	Advanced Education and Technology
Athabasca University	
The University of Alberta	
The University of Calgary	
The University of Lethbridge	
Victims of Crime Fund	Solicitor General and Public Security
The Wild Rose Foundation	Culture and Community Spirit

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Fund or Agency	*Ministry Annual Report*
Alberta Foundation for Health Research	Advanced Education and Technology
Alberta Heritage Foundation for Medical Research	Advanced Education and Technology
Alberta Heritage Foundation for Science and Engineering Research	Advanced Education and Technology
Alberta Teachers' Retirement Fund Board	Education
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance and Enterprise
Long-Term Disability Income Continuance Plan - Bargaining Unit	Treasury Board
Long-Term Disability Income Continuance Plan - Management, Opted Out and Excluded	Treasury Board
Management Employees Pension Plan	Finance and Enterprise
Provincial Judges and Masters in Chambers (Registered) Pension Plan	Finance and Enterprise
Public Service Management (Closed Membership) Pension Plan	Finance and Enterprise
Public Service Pension Plan	Finance and Enterprise
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Finance and Enterprise
Supplementary Retirement Plan for Public Service Managers	Finance and Enterprise
Workers' Compensation Board	Employment and Immigration

Footnotes:

[1] Effective January 1, 2008, the Alberta Energy and Utilities Board was realigned into two separate regulatory bodies: the Alberta Utilities Commission and the Energy Resources Conservation Board.
[2] The Act was proclaimed and came into force on December 5, 2008.
[3] Began operations July 1, 2008.
[4] Incorporated on January 29, 2009
[5] Began operations July 1, 2007.
[6] Ministry includes only the departments so separate financial statements are not necessary.