Finance

Annual Report
2011-2012

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Finance

Annual Report 2011-2012

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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 21 ministries.

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

On October 12, 2011 the government announced new ministry structures. The 2011-12 ministry annual reports and financial statements have been prepared based on the October 12, 2011 ministry structure.

As of October 12, 2011 some changes were made to the Ministry of Finance. The Enterprise portfolio was moved to Alberta Treasury Board, and responsibility for the Office of Statistics and Information and Alberta Liquor and Gaming Commission was transferred to Alberta Finance from Alberta Employment and Immigration and the Solicitor General and Public Security respectively.

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

- **the financial statements of entities making up the ministry, including the Department of 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.**

On May 8, 2012 the government announced a restructuring of cabinet. The Ministry of Finance and the Ministry of Treasury Board were consolidated and renamed as the Ministry of Treasury Board and Finance. This most recent restructuring will be reflected in the 2012-13 Ministry Annual Report.

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2012, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 18, 2012 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

"Original signed by"

Doug Horner
President of Treasury Board and
Minister of Finance

Message from the Minister

The 2011-12 fiscal year was a year of growth for Alberta. While challenges remained for many other governments around the world, Alberta's resource-based economy benefited from higher oil prices and strong economic activity.

Employment growth of 3.8 per cent led all provinces, pushing down the unemployment rate by one full percentage point to an average of 5.5 per cent in 2011. Investment in the natural resource sector, job gains, and stronger consumer spending contributed to an expansion of Alberta's economy.

In this environment, Alberta Finance developed *Budget 2012* by providing fiscal and economic forecasts and advice, and coordinating the fiscal plan. The budget followed through on government's commitment to Albertans by responsibly investing in programs that support Albertans' quality of life without raising taxes and positioning the province to balance the budget by 2013-14.

This means that 75 per cent of spending will provide Albertans with better access to health care services, help our growing seniors' population, ensure a better quality of life for the vulnerable and continue to build the best education system in Canada.

In December 2011, the Supreme Court unanimously ruled that the proposed federal securities legislation was constitutionally invalid under the federal trade and commerce power. Alberta is now working co-operatively with the other provinces and with the federal government moving forward. Alberta shares the same goal as all the other Canadian jurisdictions: a stable, fair and efficient securities system that protects investors and is a model recognized as among the best in the world.

Almost $6 billion in revenue was collected through the efforts of the department, which worked collaboratively with tax administrators across the country to ensure Alberta's tax laws were followed.

Work continued on other key activities during 2011-12, such as developing legislation to allow for pooled pension plans while at the same time harmonizing private sector pension plan standards with British Columbia. Mandatory auto insurance rates for 2011 were maintained at 2010 levels and the process began to review the province's auto insurance system to make it even stronger.

The ministry also developed several pieces of legislation including the *Alberta Investment Management Corporation Amendment Act*, which ensures that the Alberta Investment Management Corporation is able to operate efficiently and effectively as it manages the province's investments on behalf of Albertans. The *Alberta Securities Amendment Act* was also passed with measures to strengthen protection for investors and foster confidence in Alberta's capital markets.

Alberta is growing and our province continues to be seen by investors, workers and families as a place of unlimited opportunities and possibilities. I am proud of the ministry's role in supporting the success of our province.

"Original signed by"

Doug Horner
President of Treasury Board and
Minister of Finance

Management's Responsibility for Reporting

The Ministry of Finance includes:

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

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

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

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the Minister of Finance. Under the direction of the minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- reliability – information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- understandability – the performance measure methodologies and results are presented clearly.
- comparability – the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- completeness – goals, performance measures and related targets match those included in the ministry's *Budget 2011*.

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

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

In fulfilling my responsibilities for the ministry I have relied as necessary on the executive of the individual entities within the ministry.

"Original signed by"

Annette Trimbee
Deputy Minister Treasury Board and Finance
June 18, 2012

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Results Analysis

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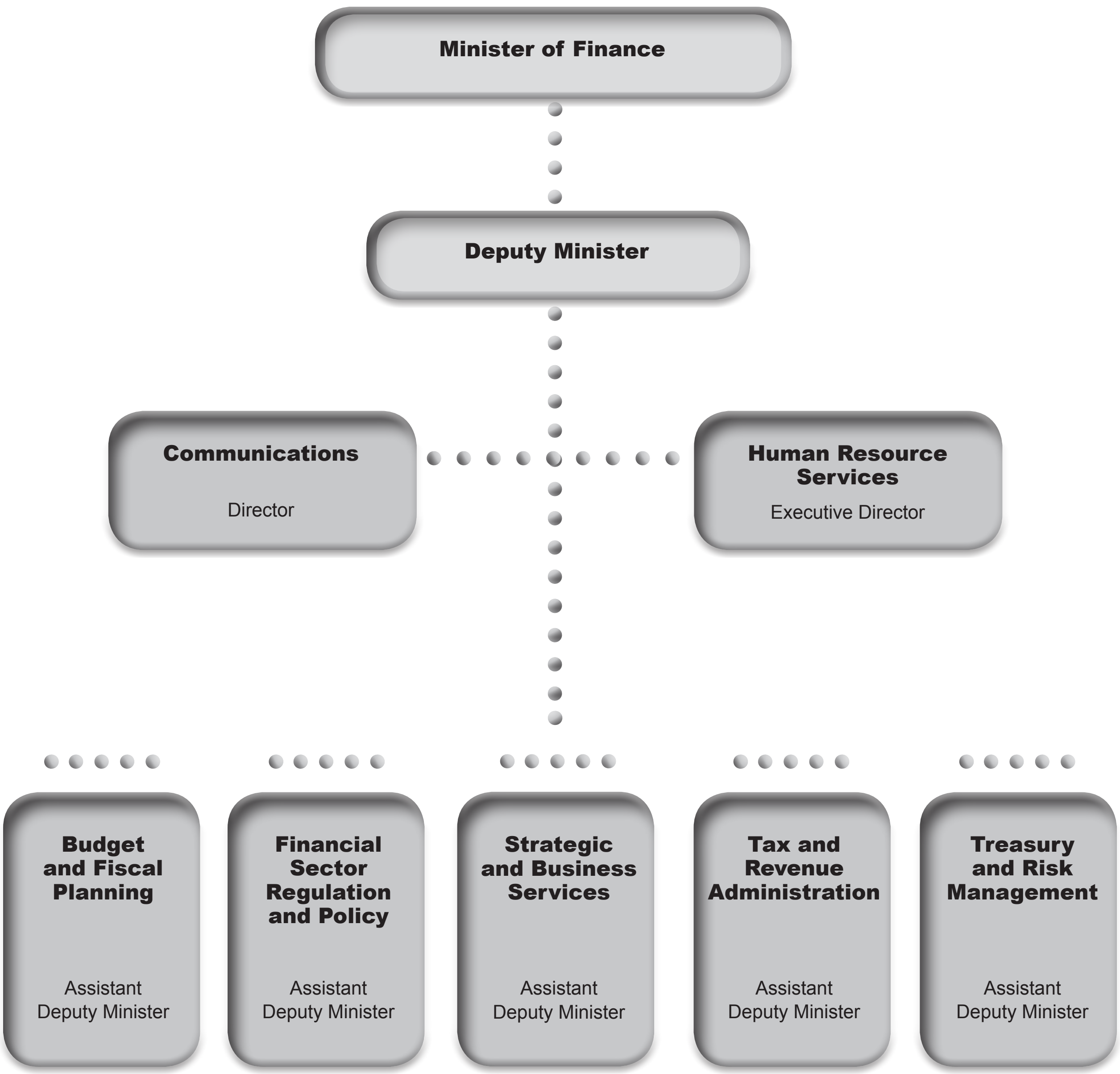
Organizational Chart



Ministry Goals

Goals

Goal 1: Economic, tax and fiscal advice supports strong and sustainable government finances

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

Goal 3: Sound investment, treasury and risk management

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

Goal 5: Accessible financial services for Albertans

Goal 6: Alberta's liquor and gaming activities are conducted with integrity and in a socially responsible manner (Formerly with Solicitor General and Public Security)

Operational Overview

Terrace Building	Haultain Building	Norcen Building	Labour Building
9515-107 Street	9811-109 Street	1100-715-5th Avenue SW	302-10808-99th Avenue
Edmonton, Alberta	Edmonton, Alberta	Calgary, Alberta	Edmonton, Alberta
T5K 2C3	T5K 2L5	T2P 2X6	T5K 0G5

Budget and Fiscal Planning Division (BFP)

The Budget and Fiscal Planning division is responsible for advising the government on overall fiscal, economic and tax policy issues. This includes advising on federal-provincial fiscal relations and supporting federal/provincial/territorial funding transfer discussions. BFP coordinates the preparation of the province's annual budget and quarterly fiscal updates and prepares the executive summary of the province's annual report. BFP also prepares economic and population projections for use within the Government of Alberta, forecasts tax revenue and major federal funding transfers, and consolidates and disseminates official statistics and other key government data to support strategic management, policy development and decision-making across the Government of Alberta. The division presents the overall fiscal position of the Government of Alberta to the Treasury Board Committee, Cabinet and Caucus as part of the budget and quarterly update processes. BFP is also primarily responsible for the province's legislated fiscal framework. BFP has four branches: Budget Planning and Integration; Economics; Demography and Public Finance; Tax Policy; and the Office of Statistics and Information.

Tax and Revenue Administration Division (TRA)

The Tax and Revenue Administration division administers tax and related programs under the Alberta corporate income, fuel, tobacco tax and tourism levy acts on behalf of the Minister of Finance. TRA also administers the Unclaimed Personal Property and Vested Property program, and contributes to the development of Alberta tax policy. The focus of TRA's activity is to ensure a fair, efficient and effective provincial tax and revenue system, through the work of its five branches: Tax Services; Revenue Operations; Audit; Strategic and Client Services; and Business Technology Management.

Treasury and Risk Management Division (TRM)

Treasury Management (TM) is responsible for the management of short-term borrowing and investments, banking and cash forecasting, arranging financing for the government and provincial corporations, and monitoring and managing loans and guarantees. TM is also responsible for providing investment policy advice to the Minister of Finance as well as portfolio planning and evaluation for the investments of the General Revenue Fund and the government endowment funds. The division also provides policy analysis and advice on the regulation of capital markets in Alberta, and in the inter-provincial, federal-provincial and global contexts. It is also responsible for promoting a level and competitive environment for financial institutions in Alberta and minimizing the risk of loss to deposit holders and consumers of trust products in the province.

TM is divided into the following four areas: Capital Markets; Banking and Cash Forecasting; Financial Institutions Policy; and Capital Markets Policy.

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

Financial Sector Regulation and Policy Division (FSRP)

The Financial Sector Regulation and Policy division is comprised of the Assistant Deputy Minister's Office and five program areas: Financial Institutions Regulation; Insurance Policy and Communications; Insurance Regulations and Market Conduct; Pension Policy (public sector); and Employment Pensions (private sector regulation). FSRP is responsible for the regulation and supervision of loan and trust corporations, financial institutions, insurance companies and registered private-sector pension plans. The division also provides policy support and analysis to the minister for insurance and private sector pension plans, as well as for public sector pension plans, and for the Canada Pension Plan.

Division activities include: ensuring all private-sector pension plans comply with the requirements of the *Employment Pensions Act*; regulating the solvency and market conduct of all licensed insurance companies and reciprocals and handling consumer complaints regarding insurance companies; developing legislation and policy to support governments' objectives related to all insurance products; developing legislation and policy for public and private-sector pension plans; providing policy support for Alberta's role as one of the joint stewards of the Canada Pension Plan; and ensuring the safety and soundness of provincially incorporated financial institutions.

Strategic and Business Services Division (SBS)

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

Human Resource Services (HR)

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

Communications

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

Summary of Key Activities in the Past Year

- Developed and coordinated *Budget 2012: Investing in People*, which followed through on government's commitment to Albertans by responsibly investing in programs that support Albertans' quality of life without raising taxes and positioning the province to balance the budget by 2013-14. This means that 75 per cent of spending will provide Albertans with better access to health care services, help our growing seniors' population, ensure a better quality of life for the vulnerable and continue to build the best education system in Canada.
- Despite fiscal challenges, the budget maintained the province's tax competitiveness, with Albertans and Alberta businesses paying $10.7 billion less in taxes each year than they would in any other province. Alberta has low personal and corporate income taxes, the lowest fuel taxes among provinces, no capital tax, no payroll tax, no health care premiums and no sales tax.
- In December 2011, the Supreme Court of Canada unanimously ruled that the proposed federal securities legislation was constitutionally invalid under the federal trade and commerce power. The Supreme Court of Canada noted that provincial and federal authorities could co-operatively work together to design a regulatory scheme that recognizes the essentially provincial nature of securities regulation while allowing the federal government to deal with genuinely national concerns. Alberta is now working co-operatively with the other provinces and with the federal government moving forward. Alberta shares the same goal as all other Canadian jurisdictions: a stable, fair and efficient securities system that protects investors and is a model recognized as among the best in the world.
- Provided Albertans with up-to-date information on the province's fiscal and economic situation with the release of quarterly fiscal updates; a report on *Albertans Net Contribution to the Federation; Alberta Population Projections by Census Division for 2011-2050*; and the weekly/monthly release of key economic information and analysis, such as Economic Trends and the Weekly Economic Review.
- Passed a number of pieces of legislation, including the *Alberta Investment Management Corporation Amendment Act*, which ensures that the Alberta Investment Management Corporation is able to operate efficiently and effectively as it manages the province's investments on behalf of Albertans. The *Alberta Securities Amendment Act* was also passed with measures to strengthen protection for investors and foster confidence in Alberta's capital markets.
- Continued working in conjunction with the Government of British Columbia on developing highly harmonized private sector pension standards legislation. When introduced, the province's revised *Employment Pension Plans Act* will make sure Albertans with workplace pension plans have the opportunity for a successful, financially secure retirement.
- Started development of the legislation to allow pooled registered pension plans. Pooled registered pension plans will provide a simple, low-cost, effective way of improving pension coverage for employees of small and medium businesses, and the self-employed.
- Maintained mandatory auto insurance rates for 2011 at 2010 levels. Since auto insurance reforms came into effect in 2004, premiums for mandatory automobile insurance have dropped by 23 per cent.

- Started the process of reviewing the province's automobile insurance system, which was reformed in 2004. The review will ensure the system provides the best outcomes for Albertans, including affordable, accessible and fair insurance, and will consider how to help Albertans have a better understanding of how the system works.
- Implemented reforms to the *Insurance Act* and related regulations. One of the reforms is the dispute resolution process for insurance products. The new process comes into effect July 1, 2012, and will give consumers more tools to assist them if they have a complaint about an insurance claim or policy.
- Collected $5.8 billion in revenue through the work of Tax and Revenue Administration from corporate income, fuel, tobacco and insurance taxes, and the tourism levy. Corporate and commodity returns processed exceeded 275,000 and more than 22,000 benefit claims were processed in the same period.
- Recovered $51.9 million in 2011-12 through audits of corporate and commodity tax programs. The audit branch continues to work co-operatively with tax administrations across Canada to ensure compliance with Alberta's tax laws.
- Approved the Fuel Tax Amendment Regulation, setting out regulatory changes made to eliminate the Tax Exempt Fuel User and the Prescribed Rebate Off-road Percentages rebates for licensed vehicles, in April 2011. Passed the Tobacco Tax Amendment Regulation in December 2011, adopting the new federal tobacco stamping regime in Alberta.
- Introduced the Corporate Income Tax Net File system in July 2011, enabling corporate taxpayers to file their returns electronically. A total of 29,972 returns were filed in 2011–12 using Net File.
- Supported an estimated 8,998 active accounts on Tax and Revenue Administration Client Self-service (TRACS) where taxpayers can access their most current account information. Activities included viewing the status of submitted returns or claims, checking account balances, and updating address and account information.
- Maintained a central listing of 12,000 unclaimed items in the Alberta unclaimed property registry and paid out more than $400,000 to more than 160 owners during 2011-12.
- Released the 2011 Alberta Official Statistics. These statistics, and others published through the year, give a snapshot of Alberta and how the province has changed over the years, and are a vital tool to help government, business and Albertans make well-informed decisions.
- Facilitated a collaborative network that improved data and information sharing both within and outside government, supporting excellence in policy analysis and development.
- Gaming and liquor activities contribute to Albertans' quality of life by providing funding to the Government of Alberta and charitable and religious groups. These funds are used to support volunteer, public and community-focused initiatives. In 2011-12, $687 million was provided to the province from liquor operations, nearly $1.5 billion was provided to the Alberta Lottery Fund from provincial gaming, and charitable and religious groups earned almost $314 million from charitable gaming activities.

Ministry Financial Highlights

Revenue

(millions of dollars)

2011–2012		2010–11
Budget	Actual	Actual
20,153	20,092	18,951

Revenue for the ministry is $1,141 million, or 6 per cent higher, than in 2010-11.

(Actual–Actual)

- Personal income tax revenue is $934 million higher than the prior year due to higher personal income and higher assessments.
- Corporate income tax revenue is $223 million higher than the prior year due to higher corporate income as the economy has started to recover.
- Other tax revenue is higher than the prior year by $199 million primarily due to fuel tax revenue that increased $187 million as a result of the elimination of the Tax Exempt Fuel User (TEFU) rebate including Prescribed Rebate Off-road Percentages (PROP) and increased consumption driven by economic recovery. As well, tobacco tax revenue increased $3 million, insurance tax revenue increased $2 million, tourism levy revenue $8 million while other tax revenue is down $1 million.
- Net investment income is $295 million lower than the previous year. Market conditions were not as favourable this past year compared to the prior year.
- Net income from government business enterprises increased $56 million from the prior year. The income from Alberta Gaming and Liquor Commission (AGLC) increased by $48 million, Credit Union Deposit Guarantee Corporation (CUDGC) by $12 million and ATB Financial (ATB) decreased by $4 million.
- Premiums, fees and licences decreased by $18 million as special contribution payments from CUDG were completed in 2011.
- Other revenue increased by $33 million from the prior year due to a $31 million increase in service fee revenue of Alberta Investment Management Corporation (AIMCo) and $2 million from Risk Management Fund and other revenue in the ministry.

Revenue for the ministry is $61 million, or 0.3 per cent, under budget.

(Budget–Actual)

- Personal income tax revenue is $243 million lower than budget due to lower personal income and lower than expected assessments.
- Corporate income tax revenue is $110 million lower than budget due to lower than expected corporate profits.
- Other tax revenue is $22 million higher than budget driven by fuel tax revenue that is higher than expected as a result of increased consumption resulting in $54 million over

budget, drawn down by shortfalls to budget from tobacco tax, insurance tax and tourism levy revenues.

- Transfers from Government of Canada were $4 million less than budgeted.
- Net investment income is $136 million above budget. The returns from endowment funds were not as high as budgeted, however, the investment income of the Sustainability Fund was higher than budgeted. Interest income from increased loans issued by ACFA (to municipal governments, schools, universities, colleges and hospitals) contributed to higher than anticipated net investment income.
- Net income from government business enterprises is $75 million higher than budget comprised of $64 million from AGLC, $8 million from ATB and $3 million from CUDGC.
- Premiums, fees and licences are $2 million over budget. This is primarily attributed to the slightly higher payment in lieu of taxes and deposit guarantee fee from ATB Financial.
- Other revenue is $61 million over budget due to service revenue higher than budget as a result of higher than expected recovery of AIMCo investment fees.

Expenses

(millions of dollars)

2011–2012		2010–11
Budget	Actual	Actual
1,735	2,200	1,918

Ministry expenses are $282 million, or 15 per cent, higher than in 2010-11.

(Actual–Actual)

- Tax and revenue management is $8 million more than the prior year due to required interest on corporate tax refunds that were anticipated and budgeted for in the current year.
- Financial Sector and Pensions had slightly decreased expenses of $5 million from the prior year.
- Investment, treasury and risk management expenses are $78 million higher than the prior year mainly due to increased AIMCo investment costs.
- The Teachers' Pension liability funding is $7 million higher than the prior year due to teachers not retiring as quickly as anticipated and teacher's salaries increasing at a higher rate than expected.
- The amount of $529 million compared to $346 million in the prior year is due to the lowering of the discount rate used in the actuarial extrapolation. Other reasons include teachers in this plan are not retiring as quickly as anticipated and the teachers' salaries increased at a rate higher than expected.
- Debt servicing costs are $3 million higher than the prior year. Higher debt service costs for ACFA, related to an increase of almost $1.4 billion in debt outstanding over the year, was mostly offset by reductions in the debt servicing for general government due to the repayment of debt throughout the year.

Expenses for the ministry were $465 million, or 27 per cent, over budget.

(Budget–Actual)

- Investment, treasury and risk management expenses are $71 million higher than budget mainly due to AIMCo investment costs that were recovered.
- Financial Sector and Pensions expenses are $13 million under budget mainly due to decreased costs at Alberta Securities Commission and Alberta Pensions Services Corporation.
- The Teachers' Pension liability funding is $26 million below budget due to fewer than expected retirements.
- Debt servicing costs are $89 million lower than budget as the extent of borrowing was not as high as anticipated and because interest rates remained at lower levels than expected.
- Pension provision of $529 million, subject to the *Fiscal Responsibility Act*, as a non-cash expense of the ministry is not included in the estimates.

AUDITOR GENERAL *Alberta*

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as "Reviewed by Auditor General" in the *Ministry of Finance's 2011-12 Annual Report*. The reviewed performance measures are the responsibility of the Ministry and are prepared based on the following criteria:

- Reliability – information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- Understandability – the performance measure methodologies and results are presented clearly.
- Comparability – the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness – goals, performance measures and related targets match those included in the Ministry's Budget 2011.

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

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

Based on my review, nothing has come to my attention that causes me to believe that the "Reviewed by Auditor General" performance measures in the Ministry's 2011-12 Annual Report are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability, and completeness as described above.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2012

Edmonton, Alberta

Performance measures reviewed by the Auditor General are noted with an asterisk (*) on the Performance Measures Summary Table

Performance Measures Summary Table

Goals/Performance Measure(s)		Prior Years' Results				Target	Current Actual
1. Economic, tax and fiscal advice supports strong and sustainable government finances							
*1.a Alberta's credit rating (blended credit rating domestic debt)		AAA	AAA	AAA	AAA	AAA	AAA
		2007-08	2008-09	2009-10	2010-11	Target	2011-12
1.b Sustainable operating spending growth (operating spending relative to population plus Consumer Price Index) (new measure 2009-12 BP)	Operating spending growth	Not Comparable	9.6%	4.4%	6.3%	2.2%	2.7%
	Population plus CPI		5.0% {r}	1.8% {r}	2.4% {r}	n.a.	4.3%
		2007-08	2008-09	2009-10	2010-11	Target	2011-12
2. Revenue programs are administered fairly, efficiently and effectively							
2.a Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)		13:1	25:1	12:1	13:1	12:1	12.5:1
		2007-08	2008-09	2009-10	2010-11	Target	2011-12
3. Sound investment, treasury and risk management							
*3.a The Alberta Heritage Savings Trust Fund five-year annualized rate of return[1]		Not-Comparable	2.6% (4.8% below target)	4.4% (2.9% below target)	3.5% (3.8% below target)	7.4%	2.7% (4.7% below target)
		2007-08	2008-09	2009-10	2010-11	Target	2011-12

[1] The measure was consolidated in 2011 to reflect both policy and active management. Prior years' numbers have been restated to be comparable.

4. Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans [2]							

[2] Performance Measure Under Development: The ministry is currently developing a measure for this goal.

5. Accessible financial services for Albertans							
5.a ATB Financial return on average assets		0.14%	0.03%	0.62%	0.99%	0.65%	0.63%
		2007-08	2008-09	2009-10	2010-11	Target	2011-12
5.b Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan		Met (in both cases compared)			Met	Lower Rate	Met
		2007-08	2008-09	2009-10	2010-11	Target	2011-12
6. Alberta's liquor and gaming activities are conducted with integrity and in a socially responsible manner							
6.a Public satisfaction with the conduct of the liquor business in Alberta		78%	77%	78%	78%	80%	80%
		2007-08	2008-09	2009-10	2010-11	Target	2011-12
6.b Public satisfaction with the conduct of legal gaming in Alberta		73%	72%	79%	79%	72%	81%
		2007-08	2008-09	2009-10	2010-11	Target	2011-12

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

* Indicates Performance Measures that have been reviewed by the Office of the Auditor General.

The performance measures indicated with an asterisk were selected for review by ministry management based on the following criteria established by government:

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

{r} These results have been revised

Discussion and Analysis of Results

GOAL 1

Economic, tax and fiscal advice supports strong and sustainable government finances

A component of Alberta's fiscal planning and budgeting is the legislated fiscal framework, enshrined mainly in the *Fiscal Responsibility Act*. The fiscal framework reflects the rules and limitations the government places on itself for budgeting purposes. Responsibility for the framework rests with Alberta Finance. In 2011-12, the government announced that the fiscal framework will be reviewed. The Minister of Finance will develop and implement a renewed fiscal and savings strategy to reduce the province's dependence on non-renewable resource revenue and seek Albertans input on the Alberta Heritage Savings Trust Fund. In 2011-12, the ministry undertook planning and other preliminary work for the fiscal framework review.

In 2011-12, Alberta Finance provided updates to 2011-12 forecasts and advice on the province's fiscal and economic situation to Treasury Board Committee. The volatility of Alberta's economy and revenue base present challenges in maintaining the sustainability of government finances. Changes to commodity and financial markets, all beyond the government's control, can have a significant impact on Alberta's fiscal situation. While global economic growth continued in 2011-12, concerns over the European and US fiscal situations caused drops in equity markets and oil prices in mid-2011, reducing revenue.

In 2011-12, the deficit was $23 million, an improvement of $3.4 billion from the budget estimate, mainly due to higher crown lease sales revenue and royalties from bitumen, oil and natural gas, partly offset by lower income tax revenue. Total expense was $0.3 billion higher than the budget estimate due mainly to in-year provision of disaster assistance for wildfires, flooding and forest fires. On a year-over-year basis, operating expense grew 2.7 per cent from 2010-11, compared to population plus inflation growth of 4.3 per cent.

Alberta Finance contributes economic, tax and fiscal policy analysis on government initiatives, and on provincial, national and global events and issues, as they arise. In 2011-12, the ministry prepared timely analysis on the economy through various publications and provided economic and fiscal advice on such initiatives as the Northwest Upgrading project and the Land-use Framework, as well as on various energy and environment-related issues.

The ministry co-chaired the Demography Working Group (DWG) to review population and demography initiatives that have broad policy implications for the Government of Alberta. During 2011-12, the DWG provided oversight to a pilot shadow population study by Statistics Canada and to a multi-disciplinary project team responsible for quality assurance and technical review of demographic data associated with long-term infrastructure planning in the Wood Buffalo and Cold Lake oil sands areas.

The ministry undertook an internal review of the Scientific Research and Experimental Development (SR&ED) tax credit program with Advanced Education and Technology, which culminated in the elimination of the deduction of the federal investment tax credit ('the grind') in the calculation of Alberta's SR&ED tax credit. As well, the ministry participated in the review of seniors' property taxes, which culminated in Bill 5, the *Seniors' Property Tax Deferral Act*. The ministry also worked with its federal/provincial/territorial counterparts on the renewal of major federal funding transfers.

GOAL 2

Revenue programs are administered fairly, efficiently and effectively

The Ministry of Finance designs tax and revenue programs, collects revenue owing to the province, administers tax and revenue laws, makes payments of refunds and rebates, and provides information to stakeholders, taxpayers and claimants. The ministry also administers the Unclaimed Personal Property and Vested Property program.

The ministry collected a total of $5.8 billion in revenue through the work of Tax and Revenue Administration, from corporate income, fuel, tobacco and insurance taxes, and the tourism levy. Corporate and commodity returns processed exceeded 275,000 and more than 22,000 benefit claims were processed in the same period.

The Fuel Tax Amendment Regulation, setting out regulatory changes made to eliminate the Tax Exempt Fuel User (TEFU) and the Prescribed Rebate Off-road Percentages (PROP) rebates for licensed vehicles, was approved in April 2011. The marked fuel (tax excluded) component of TEFU, the Alberta Farm Fuel Benefit and the Alberta Farm Fuel Distribution Allowance were not affected by this change.

The Tobacco Tax Amendment Regulation, passed in December 2011, adopted the new federal tobacco stamping regime in Alberta. The Alberta stamp will indicate to retailers and consumers that the required provincial tax on the tobacco products has been paid.

Tax and Revenue Administration’s audits recovered $51.9 million in commodity and corporate tax programs in 2011-12. Audit continues to work co-operatively with tax administrations across Canada to ensure compliance with Alberta’s tax laws.

Tax and Revenue Administration now offers Alberta corporate income tax filers the option of filing returns in electronic format.

GOAL 3

Sound investment, treasury and risk management

The Minister of Finance sets the long term asset allocation policies and guidelines for the funds under his administration, based on advice from the Treasury and Risk Management division and Alberta Investment Management Corporation (AIMCo). The return for the Alberta Heritage Savings Trust Fund was 4.7 per cent below the target because of losses suffered in 2009 due to the credit crisis, which continue to affect the five year returns of the fund. The asset allocation decisions are responsible for most of the funds’ returns. AIMCo implements these asset allocation policies through a wide range of investment products that they have developed to meet their clients’ needs with respect to returns and risk tolerances. AIMCo also adds incremental returns through its tactical asset allocation and security selection decisions.

During 2011-12, the un-matured debt of the province increased $36 million to $4,748 million at March 21, 2012. The associated debt servicing costs decreased by $5 million to $290 million in 2011-12.

In addition, Alberta initiated a reference to the Alberta Court of Appeal regarding the constitutionality of the federal government’s proposal for a single federal securities regulator and intervened in support of Québec in a similar reference to the Québec Court of Appeal. Alberta also intervened in the federal government’s reference to the Supreme

Court of Canada to determine the constitutional validity of its draft securities legislation. Both provincial courts of appeal released their opinions in March 2011. The Alberta Court of Appeal and the majority of the Québec Court of Appeal concluded that the draft federal legislation was constitutionally invalid. The Supreme Court of Canada also unanimously concluded that the federal government lacked the legislative authority to enact its draft securities legislation when it released its opinion in late December 2011. Alberta is committed to working co-operatively with all jurisdictions to improve the existing Canadian securities regulatory system.

During 2011-12 $3.7 billion was drawn from the Sustainability Fund to support the operating expenses of the province and meet other case requirements. At March 31, 2012 the balance in the Sustainability Fund was almost $7.5 billion.

The other noteworthy initiative undertaken during the year was the consolidation of all provincial corporation borrowing under the province's name. As of April 1, 2011 the government began borrowing directly from financial markets and then on-lending the proceeds to ATB Financial (ATB) and the Alberta Capital Finance Authority (ACFA), which was already the practice with Agriculture Financial Services Corporation. Prior to this ATB and ACFA borrowed in their own name and paid higher interest rates than the Government of Alberta would pay. Consolidating the borrowing also provides benefits in overall management of the province's debt issuance. At March 31, 2012 $5.3 billion had been borrowed and on-lent to ATB and ACFA.

Goal 4

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

Alberta Finance, through the Office of the Superintendent of Pensions, currently monitors 751 private sector pension plans. Of these, 668 are active, six are in the process of being registered, five are suspended and 72 are in the process of winding up. These plans have 242,259 active members. Total contributions for the year ended March 31, 2012 were approximately $2.7 billion and the total market value of assets was approximately $29.0 billion for the year ended March 31, 2012.

Alberta Finance, through the Office of the Superintendent of Insurance, currently licenses and monitors 297 insurance companies and special brokers. Of these, 228 are insurance companies (184 federal, 35 extra provincial and nine provincial), 10 are fraternal societies, 19 are reciprocal insurance exchanges (13 provincial and five extra provincial and one federal) and 40 are special brokers. During the year ended March 31, 2012 insurers paid $435,000 in administrative penalties for violations to the *Insurance Act*.

Alberta Finance, through the office of the Superintendent of Financial Institutions, is currently the primary regulatory authority for two provincial deposit-taking-institutions that have assets exceeding $32 billion and serve over 600,000 Albertans, and for six provincial special-purpose trust companies that do not accept deposits.

Goal 5

Accessible financial services for Albertans

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

ATB is a full-service financial institution serving over 635,000 Albertans through 170 branches and 130 agencies in Alberta. About 58 per cent of its loans are in residential mortgages and consumer loans, with the balance divided between commercial, agricultural and independent business loans.

ATB's net income increased to $195.1 million for 2011-12 from the previous year's restated result of $172.9 million. ATB's return on average assets was 0.63 per cent for the year. ATB did not meet the target, primarily due to the continuing low interest rate environment which prolonged spread compression, as well as higher than expected costs associated with the core banking implementation.

ACFA provides financing for capital projects to a variety of local authorities including municipalities, health authorities, school boards, post-secondary institutions and airport authorities throughout the province. The cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan was the lowest of comparable cases for 2011.

Goal 6

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

On October 12, 2011, the Government of Alberta announced a reorganization that included transferring responsibility for the Alberta Gaming and Liquor Commission (AGLC) from the Solicitor General and Public Security to the Minister of Finance.

The AGLC oversees the liquor and gaming activities in the province and ensures integrity and social responsibility through the administration of the *Gaming and Liquor Act* and Regulation as well as related policy.

The AGLC's liquor-related responsibilities include regulating the manufacture, importation, sale, purchase, possession, transportation, use and consumption of liquor in Alberta. The AGLC registers liquor agencies, issues liquor licences, inspects liquor licensed premises, and oversees the warehousing and distribution of liquor. The AGLC also sets and collects the provincial mark-up from its sales. In 2011-12, $687 million was provided to the provincial General Revenue Fund from liquor operations.

Eighty per cent of Albertans indicated they were satisfied with the conduct of the liquor business, meeting the target for 2011-12. This result is consistent with results obtained in previous years. The AGLC will continue its work to ensure liquor activities in Alberta are conducted with high levels of integrity and social responsibility.

Alberta's gaming model ensures that proceeds from gaming benefit Albertans. The model consists of two components: charitable gaming and provincial gaming. Through the charitable gaming component of the model (casino table games, paper bingo, raffles and pull-tickets), eligible charitable or religious groups may apply for and receive licences to conduct gaming activities. Licensed charitable and religious groups use the proceeds from charitable gaming events to directly benefit their programs, causes and activities within their communities. In addition to receiving the proceeds from the events they conduct, charities also receive a commission from electronic bingo and slot machines. In 2011-12, charitable and religious organizations raised almost $314 million through licensed gaming activities under Alberta's charitable gaming model.

Through the provincial gaming component of the model the AGLC conducts and manages ticket lotteries and all electronic gaming devices (slot machines, VLTs and electronic bingo). These activities are delivered by independent retailers, private operators and bingo associations under retailer agreements. Retailers receive commissions for services delivered. The electronic gaming equipment used for tickets, slots, VLTs and electronic bingo is owned and maintained by the AGLC. Bingo associations and licensed charities receive a commission for electronic bingo and slot activity, respectively. Nearly $1.5 billion of gaming proceeds was provided to volunteer groups and public and community-based initiatives through the Alberta Lottery Fund in 2011-12.

The vast majority of Albertans, 81 per cent, expressed satisfaction with the conduct of legal gaming in Alberta. This result exceeds the target of 72 per cent and is consistent with results obtained in previous years. Given the continued high levels of satisfaction, the target for this performance measure has been increased in the 2012-2015 Ministry of Finance business plan. High levels of satisfaction provide an indication that the actions of the AGLC are meeting the expectations of Albertans. The AGLC will continue to work towards its goal of ensuring the gaming industry in Alberta is conducted with integrity and social responsibility.

Ministry Expense by Function

Expense by Function
(Millions of dollars)

	2011-12 Budget	2011-12 Actual	2010-11 Actual
Health	25	23	19
Education	89	91	88
Agriculture, Resource Management and Economic Development	154	153	135
Regional Planning and Development	1	1	6
Recreation & Culture	9	8	6
Protection of Persons and Property	43	37	37
General Government	895	928	854
Debt Servicing	519	430	427
Pension Provisions	–	529	346
Total Expense by Function	**$1,735**	**$2,200**	**$1,918**

Financial Information

Financial Statements of the Ministry of Finance and Other Organizations

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Ministry of Finance

Consolidated Financial Statements

Year Ended March 31, 2012

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Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Finance, which comprise the consolidated statement of financial position as at March 31, 2012, and the consolidated statements of operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Finance as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Financial Information

Consolidated Statement of Operations

Year ended March 31, 2012

	2012 Budget (Schedule 2)	2012 Actual	2011 Actual (Restated Note 4)
	($ millions)		
Revenues (Schedules 1 and 2)			
Income taxes	$ 12,301	$ 11,948	$ 10,791
Other taxes	2,090	2,112	1,913
Transfers from Government of Canada	1,264	1,260	1,251
Net investment income	1,862	1,998	2,293
Net income from government business enterprises	2,318	2,393	2,337
Premiums, fees and licences	120	122	140
Other	198	259	226
	20,153	20,092	18,951
Expenses (Schedules 2 and 3)			
Fiscal planning and economic analysis	6	6	4
Ministry support services	10	10	10
Tax and revenue management	45	42	34
Financial sector and pensions	180	167	172
Investment, treasury and risk management	489	560	482
Gaming	35	31	25
Teachers' pre-1992 pension liability funding	451	425	418
Pension provision (Schedule 14)	-	529	346
Debt servicing costs			
School construction debenture	12	12	15
General Government	279	213	231
Alberta Capital Finance Authority	228	205	181
	1,735	2,200	1,918
Net operating results	$ 18,418	$ 17,892	$ 17,033

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

Consolidated Statement of Financial Position

As at March 31, 2012

	($ millions)	
	2012	**2011**
		(Restated Note 4)
Assets		
Cash and cash equivalents (Schedule 4)	$ 1,620	$ 1,733
Accrued interest and accounts receivable (Schedule 5)	1,923	1,862
Portfolio investments (Schedule 6)	25,760	28,820
Equity in government business enterprises (Schedule 7)	2,739	2,612
Loans and advances to government entities (Schedule 8)	1,800	1,514
Other loans and advances (Schedule 9)	11,333	9,837
Tangible capital assets (Schedule 10)	72	60
	$ 45,247	$ 46,438
Liabilities		
Accrued interest and accounts payable (Schedule 11)	$ 1,603	$ 1,632
Unmatured debt (Schedule 12)	4,679	4,641
Debt of Alberta Capital Finance Authority (Schedule 13)	11,045	9,660
Pension obligations (Schedule 14)	9,827	9,298
Other accrued liabilities (Schedule 15)	99	131
	27,253	25,362
Net Assets		
Net assets at beginning of year, as restated (Note 4)	21,076	24,413
Adjustment to opening net assets (Schedule 7)	(90)	-
Net operating results	17,892	17,033
Net financing provided for general revenues (Note 3b)	(20,881)	(20,326)
Change in accumulated unrealized losses (Schedule 7)	(3)	(44)
Net assets at end of year	17,994	21,076
	$ 45,247	$ 46,438

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

Financial Information

Consolidated Statement of Cash Flows

Year ended March 31, 2012

	($ millions)	
	2012	**2011**
Operating activities		**(Restated Note 4)**
Net operating results	$ 17,892	$ 17,033
Non-cash items included in net operating results	(23)	(89)
	17,869	16,944
Increase in receivables	(61)	(161)
(Decrease) Increase in payables	(29)	152
Other	(47)	(1,636)
Cash provided by operating activities	17,732	15,299
Capital activities		
Purchase of tangible capital assets	(22)	(25)
Cash applied to capital activities	(22)	(25)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	10,931	12,880
Portfolio investments purchased	(7,507)	(9,478)
Repayments of loans and advances	1,105	1,000
Loans and advances made	(2,825)	(1,296)
Cash provided by investing activities	1,704	3,106
Financing activities		
Debt issues	13,021	7,668
Debt retirement	(11,635)	(7,577)
Grants for school construction debenture principal repayment	(32)	(37)
Net financing provided for general revenues	(20,881)	(20,326)
Cash applied to financing activities	(19,527)	(20,272)
Decrease in cash	(113)	(1,892)
Cash and cash equivalents, beginning of year	1,733	3,625
Cash and cash equivalents, end of year	$ 1,620	$ 1,733

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

Notes to the Consolidated Financial Statements

March 31, 2012

(All dollar amounts in millions, unless otherwise stated)

NOTE 1 AUTHORITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 AUTHORITY CONTINUED

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

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

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

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

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

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

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

NOTE 2 PURPOSE

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

- Budget and Fiscal Planning;
- Treasury Management;
- Risk Management and Insurance;
- Tax and Revenue Administration;
- Financial Sector Regulation and Policy; and
- Responsible liquor and gaming regulation.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) METHOD OF CONSOLIDATION

The Department, Alberta Cancer Prevention Legacy Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Savings Trust Fund, Alberta Heritage Scholarship Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Risk Management Fund, Alberta Capital Finance Authority, Alberta Insurance Council, Alberta Local Authorities Pension Plan Corp., Alberta Lottery Fund, Alberta Pensions Services Corporation, Alberta Securities Commission, Alberta Investment Management Corporation, N.A. Properties (1994) Ltd., and Gainers Inc., which all report under Canadian public sector accounting standards, and Provincial Judges and Masters in Chambers Reserve Fund, and Supplementary Retirement Plan Reserve Fund which are reported under Canadian accounting standards for pension plans, are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Intra-ministry transactions (revenues, expenses, capital, investing and financing transactions, and related asset and liability accounts) have been eliminated.

The government business enterprises, of AGLC, ATB Financial, and Credit Union Deposit Guarantee Corporation, which report under International Financial Reporting Standards (IFRS) are consolidated on a modified equity basis.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (GoA) operate within the General Revenue Fund. The Minister of Finance administers the General Revenue Fund. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund. Net financing provided for general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Department of Finance.

c) FUTURE CHANGES IN ACCOUNTING POLICY

In fiscal year 2012-13, the Ministry will adopt the following two new accounting standards of the Public Sector Accounting Board:

PS 3450 Financial Instruments

All government controlled organizations will adopt this standard in fiscal year 2012-13. Items within the scope of the section are assigned to one of two measurement categories: fair value, cost or amortized cost. Fair value measurement will apply to derivatives and portfolio investments in equity instruments that are quoted in an active market. Also, when groups of financial assets and financial liabilities are managed on a fair value basis they may be reported on that basis. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement will be reported in the Statement of Remeasurement Gains and Losses.

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

PS 3510 Tax Revenue

Government must adopt the new standard PS 3510 - Tax Revenue for fiscal year 2012-13. The impact of this on the Ministry financial statements is currently being analyzed. Two impacts identified at this time are that the Ministry will report retroactively the Alberta Family Employment Tax Credit and Scientific Research and Experimental Development Tax Credits on a gross basis. The impact of these two changes will be to increase total expenses and revenues with no impact on net operating results.

d) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. An estimated allowance for doubtful accounts on corporate income taxes under objection is included in corporate tax revenue.

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

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

Transfers from Government of Canada

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

Expenses

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

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

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

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

Derivative Contracts

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

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

Derivative contracts without an underlying matching asset and liability, which are primarily bond index swaps reported as interest rate derivatives, equity index swaps and equity index futures are reported as equity replication derivatives, and forward foreign exchange contracts are reported as foreign currency derivatives are recorded at fair value.

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

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of business. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, taxpayers, employees and other individuals.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Portfolio Investments

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

Loans

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

Tangible Capital Assets

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

Liabilities

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

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

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs.

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

Net Assets

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

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The Ministry operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using the average rate of exchange for the day, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred and amortized over the life of the contract.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, the valuation of private investments and hedge funds and the provisions for pension obligations.

Personal income tax revenue, totaling $8,450 million (2011: $7,516 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 6.7% (2011: 4.7%).

Corporate income tax revenue, totaling $3,498 million (2011: $3,275 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments. The Ministry 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. An allowance for doubtful accounts is estimated and included net of revenue.

The pension obligations of $9,827 million (2011: $9,298 million), Schedule 14, are subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

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

NOTE 4 GOVERNMENT REORGANIZATION, PROGRAM TRANSFERS AND OTHER RESTATEMENTS

The Ministry of Finance was established as a result of restructuring of government ministries announced on October 12, 2011 and other transfer of responsibilities to and from other departments. As a result of this restructuring AGLC and Alberta Lottery Fund are now part of the Ministry of Finance, while Enterprise is no longer a part of the Ministry.

As of April 1, 2011, the Canada Social Transfers are reported by the Ministry of Finance.

The restricted equity of ACFA was restated from other accounts payable to net assets.

The combined impact on the 2011 comparatives of this government reorganization, program transfers, and other restatements prior to any reclassifications as per Note 13 is as follows:

Assets increased by $579 million as follows:

- Cash and cash equivalents: $152 million
- Equity in government business enterprises: $427 million

NOTE 4 GOVERNMENT REORGANIZATION, PROGRAM TRANSFERS AND OTHER RESTATEMENTS CONTINUED

Liabilities increased by $16 million as follows:

- Accrued interest and accounts payable: $16 million

Net operating results increased by $3,336 million from $13,697 million to $17,033 million.

	($ millions)
Transfers from Government of Canada	$ 1,215
Net income from government business enterprises	2,124
Expense transfer of Gaming from Solicitor General	(25)
Expense transfer of Enterprise to Treasury Board and Enterprise	22
	$ 3,336

Net financing provided for general revenues increased by $1,212 million from $19,114 million to $20,326 million.

Change in accumulated unrealized losses increased by $(1) million from $(43) million to ($44) million.

The resulting impact to net assets at the beginning of the year for 2011 is a decrease of $1,560 million from $25,973 million to $24,413 million and net assets at the end of year for 2011 an increase of $563 million from $20,513 million to $21,076 million.

NOTE 5 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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

Due to their short term nature, the fair values of cash and cash equivalents, accrued interest and accounts receivable, accrued interest and accounts payable, and other accrued liabilities are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments are explained in the following paragraphs.

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

Mortgages and certain non-public provincial debentures are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

The fair value of alternative investments including absolute return strategy investments, investments in limited partnerships, private investment funds, private equities and securities with limited marketability is estimated using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

As quoted market prices are not readily available for private and alternative investments and private real estate, estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The fair value of loans and advances made under the authority of the *Alberta Capital Finance Authority Act* is based on the net present value of future cash flows discounted using the ACFA's current cost of borrowing. Fair values of other loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability. The fair value of unmatured debt and debt held by ACFA is an approximation of its fair value to the holder.

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

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Forward foreign exchange contracts and equity index and interest rate futures contracts are valued based on quoted market prices. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

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

NOTE 6 FINANCIAL RISK MANAGEMENT

a) LIABILITY MANAGEMENT

The objective of the Ministry's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Ministry manages four risks: interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Ministry manages these four risks within approved policy guidelines.

The management of these risks and the policy guidelines apply to the Ministry's unmatured debt, excluding debt raised to fund requirements of provincial corporations. Debt of provincial corporations is managed separately in relation to their assets.

The Ministry 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. Income and financial returns of the Alberta Heritage Savings Trust Fund are exposed to credit risk and market risk. Market risk is comprised of currency risk, interest rate

NOTE 6 FINANCIAL RISK MANAGEMENT CONTINUED

risk and price risk. Risk is reduced through asset class diversification, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The target policy asset mix is: interest-bearing securities 15-45%, equities 35-70%, and inflation sensitive and alternative investments 15-40%.

The investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund and the Alberta Cancer Prevention Legacy Fund are managed to provide an annual level of income for the purpose of making grants to researchers in the fields of medicine, science and engineering, and to students.

The investments of the Department are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters, and settlements with First Nations.

NOTE 7 CONTRACTUAL OBLIGATIONS

Obligations to outside organizations in respect of contracts entered into before March 31, 2012 amounted to $549 million (2011: $617 million), of this $317 million (2011: $355 million) is for contracts belonging to government business enterprises. These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

	($ millions)
2012-13	$ 273
2013-14	81
2014-15	58
2015-16	54
2016-17	18
Thereafter	65
	$ 549

NOTE 8 CONTINGENT LIABILITIES

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities.

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

a) GUARANTEES AND INDEMNITIES

The Province of Alberta ensures the debt of ACFA of $7,738 million (2011: $9,660 million) and Alberta Social Housing Corporation of $69 million (2011: $71 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province of Alberta, through the Department, will ensure that this obligation of the Corporation is carried out. At March 31, 2012, credit unions in Alberta held deposits totaling $17,474 million (2011: $16,680 million). Substantial assets are available from credit unions to safeguard the Department from the risk of loss from its potential obligation under the Act.

The Province of Alberta ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee of $27 million (2011: $25 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2012, ATB Financial had deposits totalling $25,053 million (2011: $23,982 million).

ATB Financial, at March 31, 2012, had a potential liability under guarantees and letters of credit amounting to $358 million (2011: $347 million).

Payments under guarantees are a statutory charge on the Ministry.

b) LEGAL ACTIONS

At March 31, 2012, 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 Ministry is jointly or separately named as a defendant in thirty-one(2011: thirty-three) legal claims. Of the thirty-one claims, twenty-seven have specified amounts totaling approximately $340 million (2011: $334 million) and four claims have no specified amount. Four (2011: five) claims totaling $7 million (2011: $1 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2012, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 9 DERIVATIVE CONTRACTS

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. The Ministry uses various types of derivative contracts held indirectly through pooled investment funds or directly held by ATB Financial and ACFA to gain access to equity markets and enhance returns or to manage exposure to interest rate risk, currency risk and credit risk. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty.

NOTE 9 DERIVATIVE CONTRACTS CONTINUED

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

	Maturity			2012		2011	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a) (c)	Fair Value (b) (c)	Notional Amount	Fair Value
Interest rate derivatives (d)	50%	5%	45%	$ 32,301	$ (520)	$ 30,999	$ 43
Equity replication derivatives (e)	70%	25%	5%	13,829	150	10,374	36
Foreign currency derivatives (f)	99%	1%	0%	7,080	(23)	10,076	36
Credit risk derivatives (g)	38%	17%	45%	2,219	(26)	2,841	(26)
Commodity derivatives	49%	51%	0%	4,234	8	2,892	1
Derivative-related receivables, net					(411)		90
Deposits in futures contracts margin accounts					8		163
Deposits as collateral for derivative contracts					6		-
Net derivatives				$ 59,663	$ (397)		$ 253

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Ministry attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

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

(c) Includes derivatives of ATB Financial with a contract notional amount of $24,789 million (2011: $22,945 million) and a net fair value of $65 million (2011: $17 million). The exposure to credit risk on these derivatives of $324 million (2011: $272 million) is reduced by entering into netting agreements of $2 million (2011: $10 million) and collateral agreements with counterparties of $51 million (2011: $19 million) leaving a residual credit exposure of $271 million (2011: $243 million).

Includes derivatives of ACFA with a contract notional amount of $12,281 million (2011: 10,723 million) and a net fair value of $(600) million (2011: $(5) million).

(d) Interest rate derivatives allow the Ministry to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

(e) Equity replication derivatives provide for the Ministry to receive or pay cash based on the performance of a specific market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

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

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

NOTE 10 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

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

As at March 31, 2012, the fair value of trust and other funds under administration were as follows:

	($ millions) 2012	2011
Local Authorities Pension Plan Fund	$ 20,838	$ 18,159
Public Service Pension Plan Fund	6,848	6,348
Management Employees Pension Plan Fund	2,814	2,627
Universities Academic Pension Plan Fund	2,786	2,602
Special Forces Pension Plan Fund	1,643	1,527
The Workers' Compensation Board Accident Fund	622	1,359
Other	260	224
	$ 35,811	$ 32,846

NOTE 11 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in the following multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan, and the Supplementary Retirement Plan for Public Service Managers. The Department's annual contribution for employees in these plans is $5 million (2011: $6 million).

At December 31, 2011, the Management Employees Pension Plan reported a deficiency of $518 million (2010: $397 million), the Public Service Pension Plan reported a deficiency of $1,790 million (2010: $2,067 million) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $53 million (2010: $40 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2012, the Bargaining Unit Plan reported a surplus of $9 million (2011: deficiency $4 million) and the Management, Opted Out and Excluded Plan reported a surplus of $10 million (2011: surplus of $7 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 12 SUBSEQUENT EVENTS

On May 8, 2012, the government announced cabinet restructuring. As a result, the Ministry of Finance was restructured. The Ministry of Finance and the Ministry of Treasury Board were consolidated and are renamed as the "Ministry of Treasury Board and Finance."

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2012 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister of Treasury Board and Finance.

Financial Information

Schedules to the Consolidated Financial Statements

March 31, 2012

(All dollar amounts in millions, unless otherwise stated)

REVENUES

SCHEDULE 1

($ millions)

	2012		2011
	Budget	Actual	Actual
			(Restated note 4)
Income taxes			
Personal income tax	$ 8,693	$ 8,450	$ 7,516
Corporate income tax	3,608	3,498	3,275
	12,301	11,948	10,791
Other taxes			
Tobacco tax	910	896	893
Fuel tax	795	849	662
Insurance taxes	322	286	284
Alberta tourism levy	63	73	65
Special broker tax	-	8	9
	2,090	2,112	1,913
Transfers from Government of Canada			
Community Development Trust	-	-	32
Canada Social Transfer	1,260	1,256	1215
Unconditional subsidy	4	4	4
	1,264	1,260	1,251
Net investment income	1,862	1,998	2,293
Net income from government business enterprises			
Alberta Gaming and Liquor Commission	2,108	2,172	2,124
ATB Financial	187	195	199
Credit Union Deposit Guarantee Corp.	23	26	14
	2,318	2,393	2,337
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	57	58	59
ATB Financial deposit guarantee fee	25	27	25
Alberta Securities Commission	29	28	27
Alberta Insurance Council	4	5	4
Other	5	4	25
	120	122	140
Other			
Pensions administration	46	43	45
Service revenue	138	196	165
Insurance services	14	15	14
Securities settlements	-	1	1
Refunds of expenditure and miscellaneous	-	4	1
	198	259	226
	$ 20,153	$ 20,092	$ 18,951

BUDGET

SCHEDULE 2

($ millions)

	2011-12 Estimates	Adjustments (a)	2011-12 Budget	Authorized Supplementary Estimates (b)	2011-12 Authorized Budget
Revenues					
Income taxes	$ 12,301	$ -	$ 12,301	$ -	$ 12,301
Other taxes	2,090	-	2,090	-	2,090
Transfers from Government of Canada	1,264	-	1,264	-	1,264
Net investment income	1,862	-	1,862	-	1,862
Alberta Lottery Fund revenue	1,390		1,390		1,390
Liquor and related revenue	718		718		718
Premiums, fees, and licences	120	-	120	-	120
Net income from commercial operations	210	-	210	-	210
Other	198	-	198	-	198
	20,153	-	20,153	-	20,153
Expenses					
Fiscal planning and economic analysis	6	-	6	-	6
Ministry support services	10	-	10	-	10
Tax and revenue management	45	-	45	-	45
Financial sector and pensions	180	-	180	-	180
Investment, treasury and risk management	489	-	489	-	489
Gaming	35	-	35	-	35
Teachers' pre-1992 pension liability funding	451	-	451	-	451
Debt servicing costs					
School boards	12	-	12	-	12
General government	279	-	279	-	279
ACFA	228	-	228	-	228
	1,735	-	1,735	-	1,735
Net operating results	$ 18,418	$ -	$ 18,418	$ -	$ 18,418

(a) There were no adjustments to the Ministry 2011-12 estimates.

(b) Estimates were approved on April 29, 2011 and there were no supplementary estimates for the Ministry.

(c) Subject to the Fiscal Responsibility Act, expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense the Ministry reports at year-end. The amount estimated for pension provisions for 2011-12 was $210 million.

EXPENSE BY OBJECT

SCHEDULE 3

($ millions)

	2012		2011
	Budget	Actual	Actual (Restated Note 4)
Salaries, wages and employee benefits	$ 159	$ 162	$ 163
Supplies and services	240	297	253
Grants	276	267	236
Interest and amortization of unrealized exchange gains and losses	508	418	410
Pension liability funding	531	504	497
Interest payments on corporate tax refunds	9	12	3
Pension provision (Schedule 14)	-	529	346
Amortization of tangible capital assets	11	10	9
Other financial transactions	1	1	1
	$ 1,735	$ 2,200	$ 1,918

CASH AND CASH EQUIVALENTS

SCHEDULE 4

($ millions)

	2012		2011	
	Book value	Fair value	Book value	Fair value
			(Restated Note 4)	
Cash	$ (75)	$ (75)	$ 491	$ 491
Cash equivalents	1,695	1,695	1,242	1,242
	$ 1,620	$ 1,620	$ 1,733	$ 1,733

At March 31, 2012, deposits in banks had a time-weighted return of 1.3% (2011: 1.1%) per annum and securities have an average effective yield of 1.3% (2011: 0.93%) per annum.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE — SCHEDULE 5

	($ millions)	
	2012	2011 (Restated Note 4)
Corporate income tax	$ 733	$ 705
Personal income tax	694	562
Accrued interest and receivable from sale of investments	230	281
Receivable from ATB Financial	85	85
Insurance corporations tax	79	81
Fuel tax	69	61
Trade settlement receivable	21	21
Tobacco tax	10	11
Tourism levy	7	6
Financial institutions capital tax	2	2
Other	117	48
	2,047	1,863
Less allowance for doubtful accounts	124	1
	$ 1,923	$ 1,862

PORTFOLIO INVESTMENTS

SCHEDULE 6

($ millions)

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Interest-bearing securitites				
Deposits and short-term securities	$ -	$ -	$ 17	$ 17
Bonds and mortgages	12,148	12,386	16,410	16,652
	12,148	12,386	16,427	16,669
Equities				
Canadian public equities	1,460	1,532	1,469	1,706
Global developed public equities	6,593	6,970	6,227	6,547
Emerging markets public equities	616	661	53	52
Private equities	999	1,157	889	939
	9,668	10,320	8,638	9,244
Inflation sensitive and alternative investments				
Private real estate	2,148	2,959	1,811	2,311
Inflation sensitive real return bonds	-	-	6	6
Private infastructure investments	1,288	1,306	785	724
Absolute return strategy hedge funds	-	-	835	916
Timberland	281	336	231	244
Private debt and loan	227	241	87	86
	3,944	4,842	3,755	4,287
Total portfolio investments	$ 25,760	$ 27,548	$ 28,820	$ 30,200
Interest-bearing securitites				
Department (a)	$ 7,696	$ 7,815	$ 11,324	$ 11,552
Alberta Heritage Savings Trust Fund (b)	3,306	3,402	3,813	3,819
Other entities	1,146	1,169	1,290	1,298
	$ 12,148	$ 12,386	$ 16,427	$ 16,669
Average effective market yield				
Department		2.0%		2.3%
Alberta Heritage Savings Trust Fund		4.4%		4.5%

(a) Of the Department's fixed-income securities, 11% of the securities held had terms to maturity of less than one year.

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

	2012	2011
	%	%
Under 1 year	4	11
1 to 5 years	47	32
Over 5 years	49	57
	100	100

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 7

	($ millions)	
	2012	**2011**
Accumulated surpluses		**(Restated Note 4)**
Accumulated surpluses at beginning of year	$ 2,545	$ 2,368
IFRS restatement [(a)]	(107)	-
Restated opening surpluses	2,438	2,368
Total revenue	4,943	4,797
Total expense [(b)]	2,550	2,460
Net income	2,393	2,337
Change in accumulated unrealized gains [(c)]	(3)	(44)
Transfers from AGLC to Finance	(2,202)	(2,116)
Accumulated surpluses at end of year	$ 2,626	$ 2,545
Represented by		
Assets		
Loans	$ 26,713	$ 22,948
Investments	2,131	2,187
Other assets	2,899	3,009
Total assets	31,743	28,144
Liabilities		
Accounts payable	1,062	1,318
Deposits [(d)]	25,053	23,982
Unmatured debt	2,764	68
Capital investment deposits	238	231
Total liabilities	29,117	25,599
	$ 2,626	$ 2,545
Accumulated surpluses at end of year		
ATB Financial	$ 2,062	$ 1,964
Alberta Gaming & Liquor Commission	380	427
Credit Union Deposit Guarantee Corporation	184	154
	2,626	2,545
Subordinated debentures in support of deposit guarantees	113	67
Equity in commercial enterprises at end of year	$ 2,739	$ 2,612

(a) During the year, government business enterprises were required to adopt IFRS. In the Ministry, this adoption has been applied on a retroactive basis with restatement of prior periods. The total impact to equity in government business enterprises was $107 million. This consisted of $90 million for ATB Financial and CUDGC resulting in a net decrease of $90 million to opening net assets of 2012 and the balance of $17 million for AGLC resulting in a decrease due to the General Revenue Fund in 2012.

(b) Included in total expense is $22 million of interest expense of ATB Financial that was paid to the Department for amounts borrowed directly by the Province on behalf of ATB Financial.

(c) The change in accumulated unrealized losses of $3 million is comprised of changes in other comprehensive income in government business enterprises. At March 31, 2012, the Ministry has $13 million in accumulated unrealized losses (2011: $10 million).

(d) Included in the deposits are ATB Financial wholesale borrowings that include amounts borrowed by the Province on behalf of ATB Financial totaling $1,990 million (2011: $ nil).

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

SCHEDULE 8

	($ millions) 2012	2011
Agriculture Financial Services Corporation	$ 1,667	$ 1,357
Alberta Social Housing Corporation	133	157
	$ 1,800	$ 1,514

OTHER LOANS AND ADVANCES

SCHEDULE 9

	($ millions) 2012	2011
ACFA loans [a]	$ 11,165	$ 9,688
Alberta Heritage Savings Trust Fund Act [b]	282	286
	11,447	9,974
Less allowance for doubtful loans, advances, implemented guarantees and indemnities [b]	114	137
	$ 11,333	$ 9,837

(a) The fair value of the ACFA loans as at March 31, 2012 was $12,495 million (2011: $10,296 million). Loans to the Municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 4.59% per annum (2011: 4.9%).

(b) Other amounts under the *Alberta Heritage Savings Trust Fund Act* include an 11% participating first mortgage bond with principal and deferred interest totaling $165 million (2011: $169 million) due July 31, 2015, non-interest bearing debentures of $114 million due July 2035, and a loan principal of $53 million due July 2046. At March 31, 2012 these investments have carrying values excluding accrued interest of $165 million, $ nil, and $3 million respectively (2011: $145 million, $ nil and $3 million).

TANGIBLE CAPITAL ASSETS

SCHEDULE 10

($ millions)

	2012				2011
	Equipment	Computer Hardware and Software	Leaseholds	Total	Total
Estimated useful life	10 years	5 years	10 years		
Historical Cost					
Beginning of year	$ 11	$ 80	$ 29	$ 120	$ 103
Additions	1	21	1	23	25
Disposals - including write-downs	-	(1)	-	(1)	(8)
	12	100	30	142	120
Accumulated Amortization					
Beginning of year	4	52	4	60	56
Amortization expense	1	6	4	11	9
Effect of disposals	-	(1)	-	(1)	(5)
	5	57	8	70	60
Net book value at March 31, 2012	$ 7	$ 43	$ 22	$ 72	
Net book value at March 31, 2011	$ 7	$ 28	$ 25		$ 60

ACCRUED INTEREST AND ACCOUNTS PAYABLE

SCHEDULE 11

($ millions)

	2012	2011 (Restated Note 4)
Accrued interest on unmatured debt of the Department and debt of ACFA	$ 179	$ 185
Corporate income tax receipts in abeyance	600	524
Corporate income tax refunds payable	419	482
Fuel rebates (TEFU/PROP) [a]	46	80
Other	359	361
	$ 1,603	$ 1,632

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

UNMATURED DEBT

SCHEDULE 12

($ millions)

	2012				2011	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt						
Floating rate and short-term fixed rate (c)	7.52	0.72	$ 266	$ 281	$ 400	$ 423
Fixed rate long-term	3.88	7.20	4,413	4,798	4,241	4,388
	4.09	6.84	$ 4,679	$ 5,079	$ 4,641	$ 4,811
Total unmatured debt is comprised of:						
Amounts borrowed on behalf of Government entities: (d)						
Agriculture Financial Services Corporation			1,667	1,779	1,357	1,406
Alberta Social Housing Corporation			133	146	157	172
			$ 1,800	$ 1,925	$ 1,514	$ 1,578
Amounts borrowed for other purposes:						
Teachers' Pension Plan liability			1,186	1,351	1,186	1,215
Capital borrowing			1,497	1,593	1,464	1,492
General purpose borrowing			196	210	477	526
			$ 4,679	$ 5,079	$ 4,641	$ 4,811

(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) In order to reduce overall GoA borrowing costs, the Ministry borrows money at a more favourable rate, and loans it to various GoA entities (see Schedule 9) with the exact same repayment terms and interest rates. In addition to the entities listed above, the Province borrowed funds on behalf of ATB Financial totaling $1,990 million (2011: $ nil) (See Schedule 7) and ACFA totaling $3,307 million (2011: $ nil) (See Schedule 13).

The consolidated gross debt of the Ministry totaling $17,714 million (2011: $14,301 million) is comprised of direct unmatured of the Ministry totaling $4,679 million (2011: $4,641 million) (Schedule 12), unmatured debt of ACFA totaling $11,045 million (2011: $9,660 million) (Schedule 13) and unmatured debt of ATB Financial totaling $1,990 million (2011: $ nil).

The total debt servicing cost of the Ministry totaling $452 million is comprised of $213 million for general government, $205 million for ACFA, $12 million for school construction debentures, all reported on the statement of operations, as well as $22 million for ATB Financial for amounts borrowed directly by the Province on behalf of ATB Financial.

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

	($ millions)
2012-13	$ 319
2013-14	112
2014-15	1,225
2015-16	140
2016-17	82
Thereafter to 2040	2,813
	4,691
Unamortized discount	(12)
	$ 4,679

None of the debt has call provisions (2011: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

SCHEDULE 13

($ millions)

	2012		2011	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
ACFA Canadian dollar fixed rate debt	$ 5,990	$ 6,596	$ 5,654	$ 6,030
ACFA Canadian dollar floating rate debt	5,055	5,075	4,006	4,028
Total [(a)]	11,045	11,671	9,660	10,058
Effective rate per annum		4.9%		5.0%

(a) Included in the total ACFA debt are amounts borrowed directly by the Province on behalf of ACFA totaling $3,307 million (2011: $ nil).

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

	($ millions)
2012-13	$ 3,560
2013-14	2,280
2014-15	657
2015-16	810
2016-17	1,500
Thereafter	2,251
	11,058
Unamortized discount	(13)
	$ 11,045

LIABILITY FOR PENSION OBLIGATIONS — SCHEDULE 14

The Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan(MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). The Minister of Finance is also trustee for the Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2011 year end or March 31, 2012 year end are reported as supplementary information in the Ministry of Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

The following is a summary of the plans for the year ending March 31, 2012:

Pension Plan	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retireees Receiving Benefits	Employee Contributions ($ millions)	Employer Contributions ($ millions)	Benefit Payments ($ millions)	Deferred Members
LAPP	141,877	45	47,065	$ 818	$ 891	$ 879	26,124
PSPP	40,813	44	21,507	236	234	410	15,161
MEPP	5,131	49	3,699	59	88	148	1,068
MSRP	1,037	53	635	3	3	3	129
PJMCPP [(a)]	127	60	131	1	2	7	5
PSMC [(a)]	-	-	2,020	-	-	57	181
SFPP [(a)]	4,035	39	2,215	39	42	87	181

(a) These three plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: PJMCPP $1 million, PSMC $60 million and SFPP $4 million.

The Ministry accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Pension Plan and Public Service Pension Plan for the GoA consolidated reporting entity except for government business enterprises that report under IFRS and are required to account directly for participation in the public service pension plans under IFRS.

The Ministry also accounts for the specific commitments made by the Government of Alberta for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Ministry also accounts for the obligation to the Members of the Legislative Assembly Pension Plan.

This schedule contains summary information on these specific pension plans. Complete financial reporting is available through each pension plan.

The liability for the pension obligations is as follows:

	2012 Pension Obligation	2012 Pension Provision	2011 Pension Obligation
	($ millions)		
Liability for pension obligations for the GoA as a participating employer (Table A)			
Local Authorities Pension Plan [(a)]	$ 450	$ 40	$ 410
Management Employees Pension Plan [(b)]	129	(8)	137
Public Service Pension Plan [(c)]	176	109	67
Supplementary Retirement Plan for Public Service Managers [(d)]	53	13	40
Provincial Judges and Masters in Chambers Pension Plan [(e)]	-	(2)	2
	808	152	656
Liability for pension obligations for GoA's commitment towards pre-1992			
Teachers' Pension Plan [(f)]	7,916	376	7,540
Public Service Management (Closed Membership) Pension Plan [(g)]	614	(7)	621
Universities Academic Pension Plan [(h)]	315	(1)	316
Special Forces Pension Plan [(h)]	129	8	121
	8,974	376	8,598
Obligations to the Members of the Legislative Assembly [(i)]	45	1	44
	$ 9,827	$ 529	$ 9,298

Table A - Liability for pension obligations for the GoA as a participating employer

	Total	Local Authorities Pension Plan	Management Employees Pension Plan	Public Service Pension Plan	Other
	($ in millions)				
Net assets available for benefits [(1)]	$ 28,966	$ 19,663	$ 2,636	$ 6,481	$ 186
Pension obligation	35,967	24,303	3,154	8,271	239
Pension plan deficit [(2)]	$ 7,001	$ 4,640	$ 518	$ 1,790	$ 53
Employee and non-GoA employer	(4,287)				
Unamortized losses [(3)]	(1,887)				
Timing differences [(4)]	(19)				
Pension obligation at March 31, 2012	$ 808				

(1) These are the net assets reported on the 2011 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2011 financial statements of the pension plans.

(3) Under Public Sector Accounting Standards, losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.

(4) Accounting timing differences from January 1, 2012 to March 31, 2012 for payments and interest expense.

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

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 6.96% of pensionable earnings shared equally between employers and employees until December 31, 2025. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 9.4% of pensionable earnings shared between employees and employers until December 31, 2014, 7.3% until December 31, 2016, 2.5% until December 31, 2017 and 2.1% until 2024. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 6.94% of pensionable earnings shared equally between employees and employers until December 31, 2025. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2011 were at 11.16% (2010: 10.5%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2012 are 7.00% of capped salary for plan members and 14.65% of capped salary for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

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

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

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

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

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

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

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

Plan	**Actuary**	**Latest Valuation Date**
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2010
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2009
Provincial Judges and Masters in Chambers Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2010
Teachers' Pre-1992 Pension Plan	Aon Consulting Inc.	Aug. 31, 2011
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2010
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2008
Members of the Legislative Assembly Pension Plan	Aon Consulting Inc.	Mar. 31, 2012

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2011 or March 31, 2012 for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the salary escalation rate, inflation rate and discount rate.

LIABILITY FOR PENSION OBLIGATIONS — SCHEDULE 14, CONTINUED

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

Plan	Latest Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2011	3.50	2.25	6.00
Management Employees Pension Plan	Dec. 31, 2011	3.50	2.25	6.30
Supplementary Retirement Plan	Dec. 31, 2011	3.50	2.25	5.50
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2011	3.50	2.25	6.10
Public Service Pension Plan	Dec. 31, 2011	3.50	2.25	6.60
Teachers' Pre-1992 Pension Plan	Mar. 31, 2012	3.50	2.25	4.50
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2011	N/A	2.25	4.50
Universities Academic Pension Plan	Mar. 31, 2012	3.50	2.25	6.50
Special Forces Pension Plan	Dec. 31, 2011	3.50	2.25	6.20
Members of the Legislative Assembly Pension Plan	N/A	N/A	2.25	4.50

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

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

The government business enterprises following IFRS have pension obligations of $195 million (2011: $137 million) comprised of $124 million (2011: $97 million) for employees in PSPP, MEPP and MSRP and $71 million (2011: $40 million) in other pension plans.

OTHER ACCRUED LIABILITIES — SCHEDULE 15

($ millions)

	2012	2011
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 92	$ 123
Vacation entitlements	7	8
	$ 99	$ 131

Financial Information

RELATED PARTY TRANSACTIONS **SCHEDULE 16**

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

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

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

The government business enterprises of the Ministry have no related party transactions.

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

	($ millions)	
	2012	**2011**
		(Restated Note 4)
Revenues		
Interest from loans and advances to government entities	$ 69	$ 66
Interest from loans and advances to SUCH sector	58	55
Charges for services	14	13
	$ 141	$ 134
Expenses		
Debt servicing costs - school boards debt	$ 12	$ 15
Transfers	226	215
Cost of services	2	2
	$ 240	$ 232
Assets		
Accounts receivable	$ 33	$ 1
Accrued interest receivable from government entities	15	14
Accrued interest receivable from SUCH sector	15	16
Loans and advances to government entities	1,800	1,514
Loans and advances to SUCH sector	1,113	992
	$ 2,976	$ 2,537
Liabilities		
Other accrued liabilities -		
Accounts and accrued interest payable	$ 13	$ 1
Future funding of school boards debt	92	123
	$ 105	$ 124

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

RELATED PARTY TRANSACTIONS **SCHEDULE 16, CONTINUED**

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are mainly allocated to the fiscal planning and financial management and the investment, treasury and risk management programs administered by the Department.

	($ millions)	
	2012	**2011 (Restated Note 4)**
Expenses – incurred by others		
Accommodation and other costs	$ 6	$ 5
Corporate and internal audit services	3	2
Legal services	1	1
	$ 10	$ 8

Department of Finance

Financial Statements

Year Ended March 31, 2012

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Finance, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Finance as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statement of Operations

Year ended March 31, 2012

	($ millions)		
	2012		2011
	Budget	Actual	Actual
	(Schedule 3)		(Restated Note 3)
Revenues (Schedule 1)			
Internal government transfers	$ 2,739	$ 2,520	$ 2,848
Income taxes	12,301	11,948	10,791
Other taxes	2,090	2,112	1,913
Transfers from Government of Canada	1,264	1,260	1,251
Investment income	580	715	715
Premiums, fees and licences	89	89	111
Other revenues	5	3	5
	19,068	18,647	17,634
Expenses - Directly Incurred (Note 2c and Schedule 16)			
Program (Schedules 2 and 4)			
Ministry Support Services	11	11	11
Fiscal Planning and Economic Analysis	6	6	4
Tax and Revenue Management	45	42	34
Investment, Treasury and Risk Management	67	60	59
Financial Sector and Pensions	88	85	88
Gaming	35	31	25
Pension provision	-	529	346
Teachers' pre-1992 pension liability funding	451	425	418
Total program expense	703	1,189	985
Debt servicing			
School Construction Debenture	12	12	15
General government	507	257	230
Total debt servicing	519	269	245
Total Expense	1,222	1,458	1,230
Net operating results	$ 17,846	$ 17,189	$ 16,404

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

Statement of Financial Position

As at March 31, 2012

	($ millions) 2012	2011 (Restated Note 3)
Assets		
Cash and cash equivalents (Schedule 6)	$ 1,343	$ 1,286
Accounts and accrued interest receivable (Schedule 7)	2,569	2,527
Portfolio investments (Schedule 8)	7,696	11,323
Loans and advances to government entities (Schedule 9)	7,131	1,549
Tangible capital assets (Schedule 10)	11	10
	$ 18,750	$ 16,695
Liabilities		
Accounts and accrued interest payable (Schedule 11)	$ 1,189	$ 1,176
Unmatured debt (Schedule 12)	9,976	4,641
Pension obligations (Schedule 13)	9,827	9,298
Other accrued liabilities (Schedule 14)	96	129
	21,088	15,244
Net Assets		
Net assets at beginning of year, as restated (Note 3)	1,451	5,373
Net operating results	17,189	16,404
Net financing provided for general revenues (Note 2b)	(20,978)	(20,326)
Net assets at end of year	(2,338)	1,451
	$ 18,750	$ 16,695

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

Financial Information

Statement of Cash Flows

Year ended March 31, 2012

	2012	2011 (Restated Note 3)
	($ millions)	
Operating transactions		
Net operating results	$ 17,189	$ 16,404
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(123)	(52)
Amortization of tangible capital assets (Schedule 2)	2	2
Valuation adjustments	529	346
	17,597	16,700
Increase in receivables	(42)	(2,525)
Increase in payables	14	96
Cash provided by operating transactions	17,569	14,271
Capital transactions		
Acquisition of tangible capital assets (Schedule 10)	(3)	(3)
Cash applied to capital transactions	(3)	(3)
Investing transactions		
Disposals of portfolio investments	5,763	9,443
Portfolio investments purchased	(2,009)	(5,543)
Repayments of loans and advances		
Government entities	8,235	885
Other	-	1
Loans and advances - Government entities	(13,803)	(1,018)
Cash provided by (applied to) investing transactions	(1,814)	3,768
Financing transactions		
Debt issues	18,497	6,999
Debt retirement	(13,182)	(7,069)
Grants for school construction debenture principal repayment (Schedule 4)	(32)	(37)
Net financing provided for general revenues	(20,978)	(20,326)
Cash applied to financing transactions	(15,695)	(20,433)
Decrease in cash and cash equivalents	57	(2,397)
Cash and cash equivalents, beginning of year	1,286	3,683
Cash and cash equivalents, end of year	$ 1,343	$ 1,286

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

Notes to the Financial Statements

March 31, 2012

(All dollar amounts in millions, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

- Budget and Fiscal Planning;
- Treasury Management;
- Risk Management and Insurance;
- Tax and Revenue Administration;
- Financial Sector Regulation and Policy; and
- Responsible liquor and gaming regulation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) REPORTING ENTITY

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

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

19. ATB Financial and its subsidiaries, and
20. Credit Union Deposit Guarantee Corporation.

The activities of these organizations are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

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

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

c) FUTURE CHANGE IN ACCOUNTING POLICY

PS 3510 Tax Revenue

Government must adopt the new standard PS 3510 - Tax Revenue for fiscal year 2012-13. The impact of this on the Department financial statements is currently being analyzed. Two impacts identified at this time are that the Department will report retroactively the Alberta Family Employment Tax Credit and Scientific Research and Experimental Development Tax Credits on a gross basis. The impact of these two changes will be to increase total expenses and revenues with no impact on net operating results.

d) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. An estimated allowance for doubtful accounts on corporate income taxes under objection is included in corporate tax revenue.

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

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

Internal Government Transfers

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

Internal Government Transfers - Alberta Lottery Fund

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

Internal Government Transfers - Alberta Heritage Savings Trust Fund

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

Internal Government Transfers - Alberta Gaming and Liquor Commission

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

Transfers from Government of Canada

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

Expenses

Directly Incurred

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

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

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Incurred by Others

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

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of business. Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, tax payers, employees and other individuals.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Portfolio Investments

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

Loans

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

Tangible Capital Assets

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

Liabilities

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

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

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs.

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

Foreign Currency

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

Derivatives

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

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

Derivative contracts without an underlying matching asset and liability, which are primarily bond index swaps reported as interest rate derivatives, equity index swaps and equity index futures are reported as equity replication derivatives, and forward foreign exchange contracts are reported as foreign currency derivatives are recorded at fair value.

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

Net Assets

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

Canadian public sector accounting standards require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The department operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Measurement Uncertainty

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Personal income tax revenue, totaling $8,450 million (2011: $7,516 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 6.7% (2011: 4.7%).

Corporate income tax revenue, totaling $3,498 million (2011: $3,275 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments, along with the estimate for allowance for doubtful accounts. The 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. An allowance for doubtful accounts is estimated and included net of revenue.

The pension obligations of $9,827 million (2011: $9,298 million), see Schedule 13, are subject to measurement uncertainty because a Plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

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

NOTE 3 GOVERNMENT REORGANIZATION AND PROGRAM TRANSFERS

The Department of Finance was established as a result of restructuring of government ministries announced on October 12, 2011 and other transfer of responsibilities to and from other departments. As of April 1, 2011, the Canada Social Transfers are reported by the Department of Finance. Comparatives for 2011 have been restated as if the Department had always been assigned with its current responsibilities. The combined impact of this government reorganization and program transfers is as follows:

Assets increased by $516 million from $16,991 million to $17,507 million as follows:
- Accounts and accounts receivable: $516 million

Liabilities increased by $13 million from $16,043 million to $16,056 million as follows:
- Accounts and accrued interest payable: $13 million

Net operating results increased by $3,340 million from $13,064 million to $16,404 million as follows:

	($ millions)
Transfers from Government of Canada	$ 1,215
Revenue transfer from Alberta Lottery Fund	1,444
Revenue transfer from Alberta Gaming and Liquor Commission	684
Expense transfer of Gaming from Solicitor General	(25)
Expense transfer of Enterprise to Treasury Board and Enterprise	22
	$ 3,340

Net financing for general revenues increased by $1,212 million from $19,114 million to $20,326 million.

The resulting impact to net assets at the beginning of the year for 2011 is a decrease of $1,625 million from $6,998 million to $5,373 million and net assets at the end of the year of 2011 an increase of $503 million from $948 million to $1,451 million.

NOTE 4 VALUATIONS OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

NOTE 5 RISK MANAGEMENT

a) LIABILITY MANAGEMENT

The objective of the Department's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Department manages three risks – interest rate risk, credit risk, and refinancing risk. The Department manages these three risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Department's unmatured debt, excluding debt raised to fund requirements of provincial corporations and regulated funds. Debt of provincial corporations and regulated funds is managed separately in relation to their assets.

For the Department, the most effective liability risk management strategy would be to allow existing debt instruments to mature in accordance with their terms.

Financial Information

NOTE 5 RISK MANAGEMENT CONTINUED

b) ASSET MANAGEMENT

Portfolio investments are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters.

NOTE 6 CONTRACTUAL OBLIGATIONS

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

	($ thousands)	
	2012	**2011**
Service contracts	$123,918	$151,660

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

	($ thousands)
	2012 Service Contracts
2012-13	35,432
2013-14	30,760
2014-15	28,994
2015-16	28,620
2016-17	112
	$123,918

NOTE 7 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

The Province of Alberta ensures the debt of Alberta Capital Finance Authority of $7,738 million (2011: $9,660 million) and Alberta Social Housing Corporation of $69 million (2011: $71 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Department will ensure this obligation of the Corporation is carried out. At March 31, 2012 credit unions in Alberta held deposits totaling $17,474 million (2011: $16,680 million). Substantial assets are available from credit unions to safeguard the Department from risk of loss from its potential obligation under the Act.

The Province of Alberta ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee payable of $27 million (2011: $25 million) by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2012, ATB Financial had deposits totalling $25,053 million (2011: $23,982 million).

b) LEGAL ACTIONS

At March 31, 2012, the Department was involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued, cannot be reasonably estimated. Any losses arising from the settlement will be treated as a current year expense.

Of the various legal actions, at March 31, 2012, the Department is jointly or separately named as a defendant in thirty (2011: thirty-three) legal claims. Of the thirty claims, twenty-six have specified amounts totaling approximately $339 million (2011: $334 million) and four claims have no specified amount. Four (2011: five) claims totaling $7 million (2011: $1 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2012, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 8 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

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

As at March 31, 2012, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2012	**2011**
Local Authorities Pension Plan Fund	$ 20,838	$ 18,159
Public Service Pension Plan Fund	6,848	6,348
Management Employees Pension Plan Fund	2,814	2,627
Special Forces Pension Plan Fund	1,643	1,527
Other	260	224
	$ 32,403	$ 28,885

NOTE 9 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in the multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The annual contributions of these plans are equivalent to $5 million for the year ended March 31, 2012 (2011: $6 million). The Department is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2011, the Management Employees Pension Plan reported a deficiency of $518 million (2010: $397 million), Public Service Pension Plan reported a deficiency of $1,790 million (2010: $2,067 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $53 million (2010: $40 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2012, the Bargaining Unit Plan reported a surplus of $9 million (2011: deficiency $4 million) and the Management, Opted Out and Excluded Plan reported a surplus of $10 million (2011: surplus $7 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 10 SUBSEQUENT EVENTS

On May 8, 2012, the government announced cabinet restructuring. As a result, the Department of Finance was restructured. The Department of Finance and the Department of Treasury Board were consolidated and are renamed as the "Department of Treasury Board and Finance."

NOTE 11 COMPARATIVE FIGURES

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

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

The Senior Financial Officer and the Deputy Minister of Treasury Board and Finance approved these financial statements.

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES

SCHEDULE 1

	2012 Budget	2012 Actual	2011 Actual (Restated Note 3)
	($ millions)		
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 631	$ 344	$ 720
Transfer from Alberta Gaming and Liquor Commission	718	700	684
Transfer from Alberta Lottery Fund	1,390	1,476	1,444
	2,739	2,520	2,848
Income taxes			
Personal income tax	8,693	8,450	7,516
Corporate income tax	3,608	3,498	3,275
	12,301	11,948	10,791
Other taxes			
Tobacco tax	910	896	893
Fuel tax	795	849	662
Insurance taxes	322	286	284
Alberta tourism levy	63	73	65
Special broker tax	-	8	9
	2,090	2,112	1,913
Transfers from Government of Canada			
Community Development Trust	-	-	32
Canada Social Transfer	1,260	1,256	1,215
Unconditional Grant	4	4	4
	1,264	1,260	1,251
Investment income	580	715	715
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	56	58	59
ATB Financial deposit guarantee fees	25	27	25
Other	8	4	27
	89	89	111
Other revenues	5	3	5
Total revenues	$ 19,068	$ 18,647	$ 17,634

Financial Information

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2012		2011
	Budget	Actual	Actual
			(Restated Note 3)
Salaries, wages and employee benefits	$ 49	$ 45	$ 56
Supplies and services	44	27	25
Supplies and Services from Support Service Arrangements from Related Parties [a]	2	2	2
Grants	86	92	69
Financial transactions and other	1	-	2
Amortization of tangible capital assets	2	2	2
Pension liability funding	80	78	80
Teachers' Pre-1992 pension liability funding	451	426	418
Debt servicing costs	507	257	230
Pension provisions	-	529	346
	$ 1,222	$ 1,458	$ 1,230

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

BUDGET

SCHEDULE 3

($ millions)

	2011-12 Estimates	Adjustments (a)	2011-12 Budget	Authorized Supplementary Estimates (b)	2011-12 Authorized Budget
Revenues					
Internal government transfers	$ 2,739	$ -	$ 2,739	$ -	$ 2,739
Income taxes	12,301	-	12,301	-	12,301
Other taxes	2,090	-	2,090	-	2,090
Transfers from Government of Canada	1,264	-	1,264	-	1,264
Investment income	580	-	580	-	580
Premiums, fees and licences	89	-	89	-	89
Other revenues	5	-	5	-	5
	19,068	-	19,068	-	19,068
Expenses - Directly Incurred					
Ministry support services	11	-	11	-	11
Fiscal Planning and Economic Analysis	6	-	6	-	6
Tax and Revenue Management	45	-	45	-	45
Investment, Treasury and Risk Management	67	-	67	-	67
Financial Sector and Pensions	88	-	88	-	88
Gaming	35	-	35	-	35
Teachers' pre-1992 pension - liability funding	451	-	451	-	451
Debt servicing costs - school construction	12	-	12	-	12
Debt servicing costs	507	-	507	-	507
	1,222	-	1,222	-	1,222
Net operating results	$ 17,846	$ -	$ 17,846	$ -	$ 17,846
Equipment/inventory purchases	$ 3	$ -	$ 3	$ -	$ 3

(a) There were no adjustments to the Department 2011-2012 estimates.
(b) Estimates were approved on April 29, 2011 and there were no supplementary estimates for the Department.
(c) Subject to the *Fiscal Responsibility Act* , expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense reported by the Department at year end. The amount estimated for pension provisions for 2011-12 was $210 million.

COMPARISON OF EXPENSES

SCHEDULE 4

Comparison of Directly Incurred Expense, Capital Investment and Non-Budgetary Disbursements by Element to Authorized Spending

($ thousands)

	2011-12 Estimates	Adjustments (a)	2011-12 Budget	Authorized Supplementary (b)	2011-12 Authorized Budget	Amounts Not Required To Be Voted (c)	2011-12 Authorized Spending	2011-12 Actual (d)	Unexpended (Over Expended)
Program Expenses									
Ministry Support Services									
Operating Expense									
Minister's Office	$ 525	$ -	$ 525	$ -	$ 525	$ -	$ 525	$ 351	$ 174
Deputy Minister's Office	827	-	827	-	827	-	827	834	(7)
Strategic and Business Services	8,060	-	8,060	-	8,060	268	8,328	8,529	(201)
Communications	601	-	601	-	601	-	601	526	75
Cabinet Policy Committee on the Economy	240	-	240	-	240	-	240	219	21
Valuation Adjustments	-	-	-	-	-	500	500	107	393
	10,253	-	10,253	-	10,253	768	11,021	10,566	455
Equipment/Inventory Purchases	180	-	180	-	180	-	180	691	(511)
	10,433	-	10,433	-	10,433	768	11,201	11,257	(56)
Fiscal Planning and Economic Analysis									
Operating Expense									
Budget and Fiscal Planning	6,270	-	6,270	-	6,270	-	6,270	5,610	660
	6,270	-	6,270	-	6,270	-	6,270	5,610	660
Equipment/Inventory Purchases	-	-	-	-	-	-	-	-	-
	6,270	-	6,270	-	6,270	-	6,270	5,610	660
Tax and Revenue Management									
Operating Expense									
Tax and Revenue Administration	32,847	-	32,847	-	32,847	1,958	34,805	29,919	4,886
Interest payments on corporate tax refunds	-	-	-	-	-	9,000	9,000	11,695	(2,695)
Valuation Adjustments	-	-	-	-	-	500	500	889	(389)
	32,847	-	32,847	-	32,847	11,458	44,305	42,503	1,802
Equipment/Inventory Purchases	2,082	-	2,082	-	2,082	-	2,082	2,063	19
	34,929	-	34,929	-	34,929	11,458	46,387	44,566	1,821
Investment, Treasury and Risk Management									
Operating Expense									
Treasury Management	16,647	-	16,647	-	16,647	-	16,647	8,744	7,903
Risk Management and Insurance	1,564	-	1,564	-	1,564	-	1,564	1,523	41
Access to the Future Fund	-	-	-	-	-	49,463	49,463	49,659	(196)
	18,211	-	18,211	-	18,211	49,463	67,674	59,926	7,748
Equipment/Inventory Purchases	-	-	-	-	-	-	-	-	-
	18,211	-	18,211	-	18,211	49,463	67,674	59,926	7,748

COMPARISON OF EXPENSES — SCHEDULE 4, CONTINUED

Comparison of Directly Incurred Expense, Capital Investment and Non-Budgetary Disbursements by Element to Authorized Spending

($ thousands)

	2011-12 Estimates	Adjustments (a)	2011-12 Budget	Authorized Supplementary (b)	2011-12 Authorized Budget	Amounts Not Required To Be Voted (c)	2011-12 Authorized Spending	2011-12 Actual (d)	Unexpended (Over Expended)
Financial Sector and Pensions									
Operating Expense									
Assistant Deputy Minister's Office	1,325	-	1,325	-	1,325	-	1,325	649	676
Regulations of Pensions, Insurance and Financial Institutions	3,526	-	3,526	-	3,526	50	3,576	3,471	105
Public Sector Pensions	1,465	-	1,465	-	1,465	-	1,465	1,080	385
Automobile Insurance Rate Board	1,376	-	1,376	-	1,376	-	1,376	1,059	317
Pension Liability Funding	-	-	-	-	-	79,950	79,950	78,919	1,031
	7,692	-	7,692	-	7,692	80,000	87,692	85,178	2,514
Equipment/Inventory Purchases	550	-	550	-	550	-	550	-	550
	8,242	-	8,242	-	8,242	80,000	88,242	85,178	3,064
Gaming	35,000	-	35,000	-	35,000	-	35,000	31,135	3,865
Teachers' pre-1992 pension liability funding	-	-	-	-	-	451,000	451,000	425,618	25,382
Debt Servicing									
School Construction Debenture Interest	11,795	-	11,795	-	11,795	-	11,795	11,795	-
General Government	-	-	-	-	-	506,771	506,771	256,701	250,070
	11,795	-	11,795	-	11,795	506,771	518,566	268,496	250,070
Operating Expense [e]	124,880	-	124,880	-	124,880	1,099,460	1,224,340	931,786	292,554
Summary									
Program Operating Expense	122,068	-	122,068	-	122,068	1,099,460	1,221,528	929,032	292,496
Equipment/Inventory Purchases	2,812	-	2,812	-	2,812	-	2,812	2,754	58
	124,880	-	124,880	-	124,880	1,099,460	1,224,340	931,786	292,554
Non-Budgetary Disbursements									
Grants for school construction debenture principal repayment	31,890	-	31,890	-	31,890	-	31,890	31,890	-

(a) There were no adjustments to the Department 2011-2012 estimates.

(b) Estimates were approved on April 29, 2011 and there were no supplementary estimates for the Department.

(c) Subject to the *Fiscal Responsibility Act*, expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense reported by the Department at year end. The amount estimated for pension provisions for 2011-12 was $210 million.

(d) Expense incurred per Statement of Operations, excluding any valuation adjustments

(e) Excludes pension provision of $528,669 thousand.

SALARY AND BENEFITS DISCLOSURE

SCHEDULE 5

($ thousands)

	2012				2011
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Senior Officials					
Deputy Minister of Finance [d]	$ 264	$ 1	$ 78	$ 343	$ 332
Executives					
Assistant Deputy Minister, Financial Sector Regulation and Policy	149	1	40	190	340
Assistant Deputy Minister, Treasury and Risk Management	212	1	61	274	268
Assistant Deputy Minister, Tax and Revenue Administration	169	1	46	216	280
Assistant Deputy Minister, Budget and Fiscal Planning	177	1	48	226	216
Assistant Deputy Minister, Strategic & Business Services	177	1	48	226	216
Executive Director, Human Resources	121	1	31	153	144

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

(a) Base salary includes pensionable base pay.

(b) Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2012.

(c) Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.

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

CASH AND CASH EQUIVALENTS

SCHEDULE 6

($ millions)

	2012	2011
Cash	$ (351)	$ 44
Cash equivalents	1,694	1,242
	$ 1,343	$ 1,286

At March 31, 2012, deposits in banks had a time-weighted return of 1.3% (2011: 1.1%) per annum and securities have an average effective yield of 1.3% (2011: 0.93%) per annum.

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

SCHEDULE 7

	($ millions)	
	2012	**2011 (Restated Note 3)**
Corporate income tax	$ 733	$ 705
Personal income tax	694	562
Alberta Gaming and Liquor Commission	279	347
Alberta Lottery Fund	104	169
Receivable from the Alberta Heritage Savings Trust Fund	344	276
Accrued interest receivable	88	132
ATB Financial	198	152
Insurance corporations tax	79	81
Fuel Tax	69	61
Tobacco tax	10	11
Alberta tourism levy	7	6
Other	88	26
	2,693	2,528
Less allowance for doubtful accounts	124	1
	$ 2,569	$ 2,527

PORTFOLIO INVESTMENTS

SCHEDULE 8

	($ millions)			
	2012		**2011**	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Fixed-income securities				
Corporate	$ 3,457	$ 3,494	$ 4,207	$ 4,302
Provincial, direct and guaranteed	1,531	1,573	2,781	2,867
Government of Canada, direct and guaranteed	2,589	2,628	4,194	4,238
Municipal	119	120	141	145
	$ 7,696	$ 7,815	$ 11,323	$ 11,552

The Department’s fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters. The securities held have an average effective market yield of 2.0% (2011: 2.3%) per annum and the following remaining terms to maturity: under one year: 11%; one to five years: 81%; five to ten years: 5%; over ten years: 3%.

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

Included in the fair value of the Department’s investments is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $8 million, or 0.10% of total investments (2011: $6 million or 0.05% of total investments).

The following is a summary of the Department's proportionate share of the notional amount and fair value for each class of derivative financial instruments included in the fair value of portfolio investments at March 31, 2012 (in millions):

	Maturity			2012		2011	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount [a]	Fair Value [b]	Notional Amount	Fair Value
Interest rate derivatives [c]	78%	10%	12%	$ 355	$ 3	$ 414	$ 11
Foreign currency derivatives [d]	100%	0%	0%	26	1	46	1
Credit risk derivatives [e]	55%	12%	33%	385	(4)	661	(6)
Derivative-related receivables, net					-		6
Deposits in futures contracts margin accounts					8		-
Net derivative-related investments					$ 8		$ 6

Net derivative related receivables of $(0) million are comprised of net receivables from counterparties of $5 million and net payables to counterparties of $(5) million. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

(b) The method of determining the fair value of derivative contracts is described in Note 4.

(c) Interest rate derivatives allow the Department to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

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

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

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

SCHEDULE 9

	($ millions) 2012	2011
Amounts borrowed and loaned to government entities [a]		
(see Schedule 12)		
ATB Financial	$ 1,990	$ -
Alberta Capital Finance Authority	3,307	-
Agriculture Financial Services Corporation	1,667	1,357
Alberta Social Housing Corporation	133	157
	7,097	1,514
Other loans		
Alberta Investment Management Corporation	32	32
Other	2	3
	$ 7,131	$ 1,549

a) In order to reduce overall GoA borrowing costs, the Department borrows money at a more favourable rate, and loans it to various government entities with the exact same repayment terms and interest rates.

TANGIBLE CAPITAL ASSETS

SCHEDULE 10

	($ millions) 2012	2011
	Computer Hardware & Software	Computer Hardware & Software
Estimated useful life	5 years	5 years
Historical Cost		
Beginning of year	$ 30	$ 27
Additions	3	3
	33	30
Accumulated Amortization		
Beginning of year	20	18
Amortization expense	2	2
	22	20
Net book value at March 31	$ 11	$ 10

ACCOUNTS AND ACCRUED INTEREST PAYABLE

SCHEDULE 11

	($ millions) 2012	2011 (Restated Note 3)
Corporate income tax receipts in abeyance	$ 600	$ 524
Corporate income tax refunds payable	419	482
Fuel tax rebates (TEFU/PROP) [a]	46	80
Accrued interest on unmatured debt	57	52
Other	67	38
	$ 1,189	$ 1,176

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

UNMATURED DEBT

SCHEDULE 12

($ millions)

	2012				2011	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Floating rate and short-term fixed rate [c]						
Canadian dollar debt	1.53	0.28	$ 4,808	$ 4,826	$ 400	$ 423
US dollar debt [e]	0.21	0.34	243	234	-	-
Fixed rate long-term	3.79	6.90	4,925	5,314	4,241	4,388
	2.61	3.68	$ 9,976	$ 10,374	$ 4,641	$ 4,811
Total unmatured debt is comprised of:						
Amounts borrowed on behalf of Government entities: [d]						
ATB Financial [e]			$ 1,990	$ 1,985	$ -	$ -
Alberta Capital Finance Authority			3,307	3,310	-	-
Agriculture Financial Services Corporation			1,667	1,779	1,357	1,406
Alberta Social Housing Corporation			133	146	157	172
			7,097	7,220	1,514	1,578
Amounts borrowed for other purposes:						
Teachers' Pension Plan liability			1,186	1,351	1,186	1,215
Capital borrowing			1,497	1,593	1,464	1,492
General purpose borrowing			196	210	477	526
			$ 9,976	$ 10,374	$ 4,641	$ 4,811

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

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

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

d) In order to reduce overall GoA borrowing costs, the Department borrows money at a more favourable rate, and loans it to various GoA entities (see Schedule 9) with the exact same repayment terms and interest rates.

e) ATB Financial debt includes short-term US dollar debt of $243 million (fair value: $234 miilion) in Canadian dollar amount.

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

	($ millions)
2012-13	$ 2,538
2013-14	1,072
2014-15	1,540
2015-16	140
2016-17	1,882
Thereafter	2,813
	9,985
Unamortized discount	(9)
	$ 9,976

None of the debt has call provisions (2011: 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)

	2012		2011	
	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
Interest rate swaps	$ 100	(2)	$ 100	-

Financial Information

PENSION OBLIGATIONS — SCHEDULE 13

The Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan(MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). As well the Minister of Finance is trustee for the Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2011 year end or March 31, 2012 year end are reported as supplementary information in the Ministry of Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

The following is a summary of the plans for the year ended March 31, 2012:

Pension Plan	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retireees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
					($ millions)		
LAPP	141,877	45	47,065	$ 818	$ 891	$ 879	26,124
PSPP	40,813	44	21,507	236	234	410	15,161
MEPP	5,131	49	3,699	59	88	148	1,068
MSRP	1,037	53	635	3	3	3	129
PJMCPP [(a)]	127	60	131	1	2	7	5
PSMC [(a)]	-	-	2,020	-	-	57	181
SFPP [(a)]	4,035	39	2,215	39	42	87	181

(a) These three plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: PJMCPP $1 million, PSMC $60 million and SFPP $4 million.

The Department accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Pension Plan and Public Service Pension Plan for the GoA consolidated reporting entity except for government business enterprises that report under International Financial Reporting Standards (IFRS) and are required to account directly for participation in the public service pension plans under IFRS.

The Department also accounts for the specific commitments made by the GoA for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Department also accounts for the obligation to the Members of the Legislative Assembly Pension Plan.

This schedule contains summary information on these specific pension plans. Complete financial reporting is available through each pension plan.

The liability for the pension obligations are as follows:

	2012 Pension Obligation	2012 Pension Provision (Recovery)	2011 Pension Obligation
	($ millions)		
Liability for pension obligations for the GoA as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 450	$ 40	$ 410
Management Employees Pension Plan [b]	129	(8)	137
Public Service Pension Plan [c]	176	109	67
Supplementary Retirement Plan for Public Service Managers [d]	53	13	40
Provincial Judges and Masters in Chambers Pension Plan [e]	-	(2)	2
	808	152	656
Liability for GoA's commitment towards pre-1992 pension obligations			
Teachers' Pension Plan [f]	7,916	376	7,540
Public Service Management (Closed Membership) Pension Plan [g]	614	(7)	621
Universities Academic Pension Plan [h]	315	(1)	316
Special Forces Pension Plan [h]	129	8	121
	8,974	376	8,598
Obligations to the Members of the Legislative Assembly [i]	45	1	44
	$ 9,827	$ 529	$ 9,298

Table A - Liability for pension obligations for the GoA as a participating employer

	Total	Local Authorities Pension Plan	Management Employees Pension Plan	Public Service Pension Plan	Other
	($ in millions)				
Net assets available for benefits [1]	$ 28,966	$ 19,663	$ 2,636	$ 6,481	$ 186
Pension obligation	35,967	24,303	3,154	8,271	239
Pension plan deficit [2]	$ 7,001	$ 4,640	$ 518	$ 1,790	$ 53
Employee and non-GoA employer	(4,287)				
Unamortized losses [3]	(1,887)				
Timing differences [4]	(19)				
Pension obligation at March 31, 2012	$ 808				

(1) These are the net assets reported on the 2011 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2011 financial statements of the pension plans.

(3) Under Public Sector Accounting Standards, losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.

(4) Accounting timing differences from January 1, 2012 to March 31, 2012 for payments and interest expense.

PENSION OBLIGATIONS **SCHEDULE 13, CONTINUED**

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 6.96% of pensionable earnings shared equally between employers and employees until December 31, 2025. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 9.4% of pensionable earnings shared between employees and employers until December 31, 2014, 7.3% until December 31, 2016, 2.5% until December 31, 2017 and 2.1% until 2024. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 6.94% of pensionable earnings shared equally between employees and employers until December 31, 2025. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2011 were at 11.16% (2010: 10.5%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2012 are 7.00% of capped salary for plan members and 14.65% of capped salary for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

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

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

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

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

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

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

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

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2010
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2009
Provincial Judges and Masters in Chambers Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2010
Teachers' Pre-1992 Pension Plan	Aon Consulting Inc.	Aug. 31, 2011
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2010
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2008
Members of the Legislative Assembly Pension Plan	Aon Consulting Inc.	Mar. 31, 2012

The liabilities for pension obligations are based upon actuarial extrapolations, of the most recent actuarial valuation performed at December 31, 2011 or March 31, 2012, for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate.

PENSION OBLIGATIONS — SCHEDULE 13, CONTINUED

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

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2011	3.50	2.25	6.00
Management Employees Pension Plan	Dec. 31, 2011	3.50	2.25	6.30
Supplementary Retirement Plan	Dec. 31, 2011	3.50	2.25	5.50
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2011	3.50	2.25	6.10
Public Service Pension Plan	Dec. 31, 2011	3.50	2.25	6.60
Teachers' Pre-1992 Pension Plan	Mar. 31, 2012	3.50	2.25	4.50
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2011	N/A	2.25	4.50
Universities Academic Pension Plan	Mar. 31, 2012	3.50	2.25	6.50
Special Forces Pension Plan	Dec. 31, 2011	3.50	2.25	6.20
Members of the Legislative Assembly Pension Plan	N/A	N/A	2.25	4.50

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

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

OTHER ACCRUED LIABILITIES — SCHEDULE 14

	($ millions) 2012	2011
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 92	$ 123
Vacation entitlements	4	6
	$ 96	$ 129

RELATED PARTY TRANSACTIONS — SCHEDULE 15

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

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

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

The investment in Alberta Capital Finance Authority is recorded at cost because the Corporation has the authority to pay its accumulated surplus to municipal and other shareholders, which have borrowed money from the Corporation. At December 31, 2011, there is an accumulated surplus before changes in fair value of derivatives of $134 million (2010: $100 million). There is a deficit of $705 million (2010: $38 million) including accumulated changes in fair value. During the 2012 fiscal year, the Department paid $44 million (2011: $52 million) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions Services Corporation is not significant, either on a cost or on an equity basis.

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

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

	($ millions)			
	Entities in the Ministry		**Other Entities**	
	2012	**2011**	**2012**	**2011**
Revenues		**(Restated Note 3)**		**(Restated Note 3)**
Transfers	$ 2,520	$ 2,849	$ -	$ -
Interest	45	3	69	66
Charges for services	85	91	-	-
	$ 2,650	$ 2,943	$ 69	$ 66
Expenses				
Cost of services	$ 17	$ 10	$ 63	$ 66
Assets				
Accounts receivable	$ 457	$ 950	$ 33	$ -
Accrued interest receivable	5	3	15	14
Loans and advances to government entities	5,332	35	1,800	1,514
	$ 5,794	$ 988	$ 1,848	$ 1,528
Liabilities				
Accounts and accrued interest payable	$ 1	$ -	$ -	$ -
School Construction Debentures	-	-	91	123
	$ 1	$ -	$ 91	$ 123

The following is a summary of the expenses incurred by others in support of the Department's operations:

	($ millions)	
	Other Entities	
	2012	**2011**
Expenses - incurred by others		**(Restated Note 3)**
Accommodation and air travel	$ 6	$ 5
Corporate and internal audit services	3	2
Legal services	1	1
	$ 10	$ 8

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

Financial Information

ALLOCATED COSTS BY PROGRAM

SCHEDULE 16

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statement but are disclosed in Schedule 16.

Total allocated costs of $1,468 million are comprised of total expenses per Statement of Operations amounting to $1,458 million and expenses incurred by others amounting to $10 million.

($ millions)

Program	Expenses [1]	Expenses Incurred by Others [2]	Pension provision [3]	Total 2012	Total 2011 (Restated Note 3)
Ministry support services	$ 11	$ 1	$ -	$ 12	$ 12
Fiscal planning and economic analysis	6	-	-	6	4
Tax and revenue management	43	2	-	45	38
Investment, treasury and risk management	60	2	-	62	61
Financial sector and pensions	85	4	-	89	89
Gaming	31	1	-	32	25
Teachers' pension liability funding	425	-	-	425	418
Debt servicing costs and pensions	268	-	529	797	591
	$ 929	$ 10	$ 529	$ 1,468	$ 1,238

(1) Expenses – directly incurred as per Statement of Operations.

(2) Includes accommodation and air travel $6 million, corporate and internal audit services of $3 million and legal services $1 million.

(3) Includes pension provisions of $529 million.

Regulated Funds

Table of Contents

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ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2012

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Cancer Prevention Legacy Fund, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2012

	($ thousands) 2012	2011
Financial assets		
Portfolio investments (Note 3)	$ 491,953	$ 491,983
Liabilities		
Transfer payable	$ -	$ 1,000
Administration expense payable	33	7
	33	1,007
Net financial assets (Note 5)	491,920	490,976
	$ 491,953	$ 491,983

Statement of Operations and Net Financial Assets

Year Ended March 31, 2012

	($ thousands) 2012 Budget	2012 Actual	2011 Actual
Investment income (Note 6)	$ 15,000	$ 23,861	$ 21,401
Investment expenses (Note 7)	-	(436)	(336)
Net investment income	15,000	23,425	21,065
Transfers to the Ministry of:			
Health and Wellness (Note 5b)	(25,000)	(22,481)	(18,750)
Change in net financial assets	$ (10,000)	944	2,315
Net financial assets at beginning of year		490,976	488,661
Net financial assets at end of year		$ 491,920	$ 490,976

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2012

	2012	2011
Operating transactions		
Net investment income	$ 23,425	$ 21,065
Non-cash items included in net investment income	(492)	(823)
	22,933	20,242
(Decrease) increase in payables	(974)	993
Cash provided by operating transactions	21,959	21,235
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	17,200	25,000
Purchase of investments	(23,083)	(20,340)
Cash (used in) provided by investing transactions	(5,883)	4,660
Transfers		
Transfers on behalf of the Ministry of Health and Wellness	(22,481)	(18,750)
Cash applied to transfers	(22,481)	(18,750)
(Decrease) increase in cash	(6,405)	7,145
Cash at beginning of year	7,230	85
Cash at end of year	$ 825	$ 7,230
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 825	$ 7,230

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) FUTURE CHANGE IN ACCOUNTING POLICY

Government must adopt the new standard PS 3450 - Financial Instruments by fiscal year 2015-16 but has the option to adopt earlier. The impact of this on government financial statements is currently being analyzed. All government controlled organizations will adopt this standard in fiscal year 2012-13.

When the Fund adopts this standard it will be applied on a prospective basis. As a result, comparative amounts will not be restated. The primary changes to the Fund's financial statements when it is adopted will be as follows:

i) The carrying amount of the financial instruments included in portfolio investments will be recorded based on their fair value. Currently, portfolio investments are recorded at cost.

ii) Unrealized gains and losses will be recorded in the new statement of re-measurement gains and losses. Currently unrealized gains and losses are not recorded in the financial statements.

iii) Disclosure of the hierarchy of inputs used in the determination of fair value for investments will be reported according to the following levels:

(a) Level one: fair value is based on quoted prices in an active market.

(b) Level two: fair value is based on model-based valuation methods for which all significant assumptions are observable in the market or quoted prices for similar but identical assets.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

b) PORTFOLIO INVESTMENTS

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

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

c) INVESTMENT INCOME AND EXPENSES

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

Net recognized gains and losses arising as a result of disposals of investments, 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.

d) 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.

e) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3. The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

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

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

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

i) Public interest-bearing securities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

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

f) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include interest rate swaps, credit default swaps, and futures contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

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

iii) Futures contracts are valued based on quoted market prices.

NOTE 3 PORTFOLIO INVESTMENTS (in thousands)

	2012			2011		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits [a]	$ 825	$ 825	0.2	$ 7,230	$ 7,230	1.5
Bonds [b]	491,128	494,672	99.8	484,753	490,370	98.5
	$491,953	**$495,497**	**100.0**	**$491,983**	**$497,600**	**100.0**

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the investment policies approved by the Minister of Finance. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Fund's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools.

a) Deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, include primarily short-term and mid-term interest-bearing securities. Terms to maturity and market yield at March 31, 2012 are reported in Note 4b.

b) The bond pool fund includes government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities. Terms to maturity and market yield at March 31, 2012 are reported in Note 4b.

c) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond index price, foreign

NOTE 3 INVESTMENT PORTFOLIO (thousands) CONTINUED

exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market and (3) it is settled in the future. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts, totalled $411 thousand or 0.08% of total investments (2011: nil or nil% of total investments).

Net derivative related payables of $82 are comprised of net receivables from counterparties of nil and net payables to counterparties of $82. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of the pooled fund investments at March 31, 2012 (in thousands):

	Maturity			2012		2011	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives [c]	100%	-	-	$ 11,420	$ (39)	$ -	$ -
Credit risk derivatives [d]	100%	-	-	8,997	(43)	-	-
Derivative related receivables, net					(82)		-
Deposits in futures contracts margin accounts					493		-
Net derivative related investments					$ 411		$ -

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

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

(c) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The Ministry of Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, and quality constraints on fixed income instruments.

a) **CREDIT RISK**

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

The Fund is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2012:

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

The Fund's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3c). The Fund can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Fund's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Fund participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) **INTEREST RATE RISK**

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 2.6% of total investments (2011: 2.6%).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits	91%	9%	-	1.3%
Bonds	8%	86%	6%	2.4%

c) LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting cash flow obligations. Liquidity requirements of the Fund are met through income generated from investments and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay cash calls and operating expenses, and purchase new investments. The Fund's future liabilities include cash requests from the Minister of Health and Wellness for the purposes of the Act and payables for investment purchases.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

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

	($ thousands) Cumulative since 2006	
	2012	**2011**
Transfers from the General Revenue Fund [(a)]	$ 500,000	$ 500,000
Accumulated investment income	124,282	100,857
Accumulated transfers to Ministries [(b)]	(132,362)	(109,881)
Net financial assets, at cost	$ 491,920	$ 490,976
Net financial assets, at fair value	$ 495,464	$ 496,593

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

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

NOTE 6 NET INVESTMENT INCOME (in thousands)

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

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

	2012	2011
Interest-bearing securities	$ 23,861	$ 21,401

NOTE 7 INVESTMENT EXPENSES (in thousands)

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

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds.

Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. 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 provides investment accounting, reporting and treasury management services for the Fund. A portion of these costs are charged to the Fund.

The following is a summary of expenses by asset class:

	2012	2011
Interest-bearing securities	$ 212	$ 164
Investment administration expenses	224	172
Total Investment Expenses	**$ 436**	**$ 336**
Average fair value of investments	$ 496,549	$ 497,975
Per cent of investments at average fair value	0.09%	0.07%

Financial Information

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized	
Time-weighted rates of return, at fair value [a]	**2012**	**2011**	3 years	4 years
Estimated return [b]	4.3%	3.4%	3.9%	4.3%
Estimated policy benchmark return [b]	4.1%	3.2%	2.8%	4.0%
Value added by investment manager	0.2%	0.2%	1.1%	0.3%

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

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

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2011-12 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE FOUNDATION
FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2012

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Foundation for Medical Research Endowment Fund, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2012

	($ thousands) 2012	2011
Financial assets		
Portfolio investments (Note 3)	$1,253,091	$1,263,899
Receivable from sale of investments	3,000	-
	$ 1,256,091	**$ 1,263,899**
Liabilities		
Administration expense payable	$ 116	$ 42
Payable from purchase of investments	936	-
	1,052	42
Net financial assets (Note 5)	1,255,039	1,263,857
	$ 1,256,091	**$ 1,263,899**

Statement of Operations and Net Financial Assets

Year Ended March 31, 2012

	($ thousands) 2012		2011
	Budget	**Actual**	**Actual**
Investment income (Note 6)	$ 92,463	$ 75,290	$ 98,043
Investment expenses (Note 7)	(6,941)	(8,158)	(6,084)
Net investment income	85,522	67,132	91,959
Transfers to the Ministry of Advanced Education and Technology (Note 5b)	(75,950)	(75,950)	(77,000)
Change in net financial assets	$ 9,572	(8,818)	14,959
Net financial assets at beginning of year		1,263,857	1,248,898
Net financial assets at end of year		**$1,255,039**	**$1,263,857**

The accompanying notes are part of these financial statements.

Statement of Changes in Cash Flows

Year Ended March 31, 2012

	($ thousands) 2012	2011
Operating transactions		
Net investment income	$ 67,132	$ 91,959
Non-cash items included in net investment income	(21,298)	(18,829)
	45,834	73,130
(Increase) decrease in receivables	(3,000)	5,000
Increase (decrease) in payables	1,010	(51)
Cash provided by operating transactions	43,844	78,079
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	424,874	351,270
Purchase of investments	(402,343)	(342,788)
Cash provided by investing transactions	22,531	8,482
Transfers		
Transfers to the Ministry of Advanced Education and Technology	(75,950)	(77,000)
Cash applied to transfers	(75,950)	(77,000)
(Decrease) increase in cash	(9,575)	9,561
Cash at beginning of year	21,525	11,964
Cash at end of year	$ 11,950	$ 21,525
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 11,950	$ 21,525

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) FUTURE CHANGE IN ACCOUNTING POLICY

Government must adopt the new standard PS 3450 - Financial Instruments by fiscal year 2015-16 but has the option to adopt earlier. The impact of this on government financial statements is currently being analyzed. All government controlled organizations will adopt this standard in fiscal year 2012-13.

When the Fund adopts this standard it will be applied on a prospective basis. As a result, comparative amounts will not be restated. The primary changes to the Fund's financial statements when it is adopted will be as follows:

i) The carrying amount of the financial instruments included in portfolio investments will be recorded based on their fair value. Currently, portfolio investments are recorded at cost.

ii) Unrealized gains and losses will be recorded in the new statement of re-measurement gains and losses. Currently unrealized gains and losses are not recorded in the financial statements.

iii) Disclosure of the hierarchy of inputs used in the determination of fair value for investments will be reported according to the following levels:

(a) Level one: fair value is based on quoted prices in an active market.

(b) Level two: fair value is based on model-based valuation methods for which all significant assumptions are observable in the market or quoted prices for similar but identical assets.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

b) PORTFOLIO INVESTMENTS

The Fund invests in units of 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

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

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

c) INVESTMENT INCOME AND EXPENSES

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

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

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

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

d) 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.

e) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3. The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

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

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

i) Public interest-bearing securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private interest-bearing debt and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

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

iv) The estimated fair value of real estate investments is reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows.

v) The fair value of hedge fund 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.

f) 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

contracts, equity index futures contracts and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

g) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private infrastructure, private real estate, hedge funds and timberland investments. The fair value of these investments is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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

NOTE 3 PORTFOLIO INVESTMENTS (in thousands)

	2012			2011		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities [a]	$ 11,950	$ 11,950	0.9	$ 22,775	$ 22,781	1.7
Bonds and mortgages [b]	272,348	280,942	20.6	344,111	345,062	25.7
	284,298	292,892	21.5	366,886	367,843	27.4
Equities						
Canadian [c]	102,660	107,029	7.9	106,024	122,488	9.1
Global developed [d]	472,608	499,941	36.7	465,605	490,113	36.5
Emerging markets [e]	43,474	46,827	3.4	3,515	3,474	0.2
Private [f]	46,879	52,140	3.8	46,905	47,985	3.6
	665,621	705,937	51.8	622,049	664,060	49.4
Inflation sensitive and alternative investments						
Real estate [g]	145,659	197,072	14.5	121,195	151,684	11.3
Inflation sensitive real return bonds	-	-	-	443	484	-
Infrastructure [h]	121,875	125,950	9.3	71,623	67,940	5.1
Absolute return strategy hedge funds [i]	-	-	-	59,929	69,108	5.1
Timberland [j]	18,367	21,976	1.6	15,145	15,993	1.2
Private debt and loan [k]	17,271	18,306	1.3	6,629	6,568	0.5
	303,172	363,304	26.7	274,964	311,777	23.2
Total investments [l]	**$1,253,091**	**$1,362,133**	**100.0**	**$1,263,899**	**$1,343,680**	**100.0**

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

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flow, of $11,950 (2011: $21,525) and short-term securities of nil (2011: $1,250). Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

b) Bond and mortgage pooled funds include universe bonds totaling $203,773 (2011: $281,707) and private mortgages totaling $68,575 (2011: $62,404). The portfolio includes government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements and debt related derivatives. Terms to maturity and market yield

Financial Information

NOTE 3 PORTFOLIO INVESTMENTS (in thousands) CONTINUED

at March 31, 2012 are reported in Note 4c.

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

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

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

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

g) The Fund's real estate portfolio is comprised of investments in units of AIMCo's Canadian Private Real Estate Pools (78%) and Foreign Private Real Estate Pool (22%). In the Canadian Private Real Estate Pools, real estate is held primarily through intermediary companies which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by provinces and cities in Canada, by property type and tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities.

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

i) Effective April 1, 2011 hedge fund assets are classified under equities in accordance with the Fund's SIP&G and on June 30, 2011, hedge fund assets were transferred to the global developed portfolio. The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

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

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

l) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market and (3) it is settled in the future. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts and collateral deposits, totalled $9,603 thousand or 0.7% of total investments (2011: $18,042 thousand or 1.3% of total investments).

Net derivative related receivables of $8,146 are comprised of net receivables from counterparties of $14,608 and net payables to counterparties of $6,462. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

At March 31, 2012, the value of equity index swap contracts includes amounts related to counter-parties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $554 (2011: $(56)).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of pooled fund investments at March 31, 2012 (in thousands):

	%			*($ thousands)*			
	Maturity			**2012**		**2011**	
Purpose	**Under 1 year**	**1 to 3 Years**	**Over 3 Years**	**Notional Amount** (a)	**Fair Value** (b)	**Notional Amount** (a)	**Fair Value** (b)
Interest rate derivatives (c)	58%	23%	19%	$ 148,664	$ 738	$ 177,920	$ 949
Equity replication derivatives (d)	91%	9%	-	737,915	10,728	726,977	2,757
Foreign currency derivatives (e)	99%	1%	-	407,942	(1,751)	626,687	3,845
Credit risk derivatives (f)	34%	18%	48%	127,756	(1,569)	169,927	(1,573)
Derivative related receivables, net					8,146		5,978
Deposits in futures contacts margin accounts					1,041		12,064
Deposits as collateral for derivative contracts					416		-
Net derivative related investment					$ 9,603		$ 18,042

(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).

Financial Information

NOTE 3 PORTFOLIO INVESTMENTS (in thousands) CONTINUED

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

(c) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

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

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Fund are clearly outlined in the *Statement of Investment Policies and Goals* (SIP&G) approved by the Minister of Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3l). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

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

a) CREDIT RISK

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

The Fund is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2012:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	79%
Speculative Grade (BB+ or lower)	-
Unrated	21%
	100%

The Fund's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3l). The Fund can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Fund's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Fund participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

Financial Information

b) FOREIGN CURRENCY RISK

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 41% of the Fund's investments, or $563 million, are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.1% of total investments (2011: 4.7%).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Fund's exposure to foreign currency investments held in pooled investment funds at March 31, 2012:

	($ millions)	
	2012	
Currency	**Fair Value**	**Sensitivity**
U.S. dollar	$ 293	$ 29
Euro	68	7
Japanese yen	43	4
British pound sterling	44	4
Australian dollar	25	3
Swiss franc	15	2
Other foreign currency	75	7
Total foreign investments	$ 563	$ 56

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.2% of total investments (2011: 1.3%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	**< 1 year**	**1 - 5 years**	**Over 5 years**	**Average Effective Market**
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	4%	46%	50%	4.4%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. The Fund is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.9% of total investments (2011: 4.4%).

e) LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's future liabilities include annual transfer requirements to Advanced Education and Technology and payables for investment purchases.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 1980:

	Cumulative since 1980	
	2012	2011
Transfers from the Aberta Heritage Savings Trust Fund [a]	$ 300,000	$ 300,000
Transfers from the General Revenue Fund	500,000	500,000
Accumulated investment income	1,805,989	1,738,857
Accumulated transfers for medical research and innovation [b]	(1,350,950)	(1,275,000)
Net financial assets, at cost	**$ 1,255,039**	**$ 1,263,857**
Net financial assets, at fair value	**$ 1,364,081**	**$ 1,343,638**

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

(b) In accordance with section 8(1) of the *Alberta Heritage Foundation for Medical Research Act*, the Fund paid out $76 million to the Alberta Heritage Foundation for Medical Research prior to December 31, 2009. That act was repealed on January 1, 2010, and the Fund was continued under the *Alberta Research and Innovation Act* (the Act). Section 12 of the Act limits the annual payments from the Fund to Advanced Education and Technology. Payments to Advanced Education and Technology may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year. Payments in excess of this amount may be made from the Fund if required in the opinion of the Minister.

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2012	2011
Interest-bearing securities	$ 20,439	$ 18,385
Equities		
Canadian	3,806	26,468
Global	31,324	36,753
Private	3,423	3,796
	38,553	67,017
Inflation sensitive and alternative investments		
Real estate	15,428	8,036
Infrastructure	(242)	3,803
Timberland	663	175
Private debt and loan	380	36
Inflation sensitive real return bonds	69	591
	16,298	12,641
	$ 75,290	**$ 98,043**

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

NOTE 6 INVESTMENT INCOME (in thousands) CONTINUED

The investment income for the year ended March 31, 2012 includes writedowns totalling $21,689 (2011: $4,040).

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2012	2011
Interest-bearing securities	$ 441	$ 259
Equities	5,002	3,602
Inflation sensitive and alternative investments	1,897	1,581
Investment administration expenses	818	642
Total Investment Expenses	**$ 8,158**	**$ 6,084**
Average fair value of investments	$ 1,352,907	$ 1,313,362
Per cent of investments at average fair value	0.60%	0.46%

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

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds.

Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. 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 provides investment accounting reporting and treasury management services for the Fund. A portion of these costs are charged to the Fund.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

Time-weighted rates of return, at fair value [a]	2012	2011 restated [c]	Average Annualized 5 years	Average Annualized 10 years
Estimated return [b]	7.6%	10.7%	1.9%	5.2%
Estimated policy benchmark return [b]	5.3%	10.0%	2.4%	5.0%
Value added (lost) by investment manager	2.3%	0.7%	-0.5%	0.2%

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

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

(c) The benchmark return reported for 2011 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2011 financial statements. As a result, the benchmark return changed from 9.8% to 10.0%.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2011-12 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

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ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2012

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2012

(in millions)

	2012		2011	
Financial assets				
Portfolio investments (Note 3)	$	15,015	$	14,455
Receivable from sale of investments and accrued income		13		19
	$	15,028	$	14,474
Liabilities				
Due to the General Revenue Fund	$	344	$	276
Payable from purchase of investments and amounts payable		32		-
		376		276
Net financial assets (Note 5)		14,652		14,198
	$	15,028	$	14,474

Statement of Operations and Net Financial Assets

Year Ended March 31, 2012

(in millions)

	2012				2011	
	Budget		Actual		Actual	
Investment income (Note 6)	$	1,050	$	897	$	1,152
Investment expenses (Note 7)		(80)		(99)		(72)
Net income		970		798		1,080
Transfers to the General Revenue Fund (Note 5b)		(631)		(344)		(720)
Net income retained in the Fund (Note 5b)	$	339		454		360
Net financial assets at beginning of year				14,198		13,838
Net financial assets at end of year			$	14,652	$	14,198

The accompanying notes are part of these financial statements.

Statement of Cash Flows
Year Ended March 31, 2012
(in millions)

	2012	2011
Operating transactions		
Net income	$ 798	$ 1,080
Non-cash items included in net income	(219)	(136)
	579	944
Decrease in accounts receivable	6	6
Increase (decrease) in accounts payable	32	(1)
Cash provided by operating transactions	617	949
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,243	2,656
Purchase of investments	(4,590)	(3,133)
Cash used by investing transactions	(347)	(477)
Transfers		
Transfers to the General Revenue Fund	(344)	(720)
Increase in amounts due to the General Revenue Fund	68	270
Cash used in transfers	(276)	(450)
(Decrease) increase in cash	(6)	22
Cash at beginning of year	105	83
Cash at end of year	$ 99	$ 105
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 99	$ 105

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012

(in millions)

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) FUTURE CHANGE IN ACCOUNTING POLICY

Government must adopt the new standard PS 3450 - Financial Instruments by fiscal year 2015-16 but has the option to adopt earlier. The impact of this on government financial statements is currently being analyzed. All government controlled organizations will adopt this standard in fiscal year 2012-13.

When the Fund adopts this standard it will be applied on a prospective basis. As a result, comparative amounts will not be restated. The primary changes to the Fund's financial statements when it is adopted will be as follows:

i) The carrying amount of the financial instruments included in portfolio investments will be recorded based on their fair value. Currently, portfolio investments are recorded at cost.

ii) Unrealized gains and losses will be recorded in the new statement of re-measurement gains and losses. Currently unrealized gains and losses are not recorded in the financial statements.

iii) Disclosure of the hierarchy of inputs used in the determination of fair value for investments will be reported according to the following levels:

(a) Level one: fair value is based on quoted prices in an active market.

(b) Level two: fair value is based on model-based valuation methods for which all significant assumptions are observable in the market or quoted prices for similar but identical assets.

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

b) PORTFOLIO INVESTMENTS

The Fund invests in units of 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments. Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

c) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value. For certain investments such as private equities, private infrastructure, private real estate, hedge funds and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

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

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

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

d) 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.

e) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3. The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

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

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

i) Public interest-bearing securities and equities are valued at the year end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Mortgages and private interest-bearing debt are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

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

iv) The estimated fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of hedge fund investments is estimated by external managers.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING.... CONTINUED

f) VALUATION OF DERIVATIVE CONTRACTS

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

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

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

vi) Warrants and rights are valued at the year end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

g) MEASUREMENT UNCERTAINTY

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

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

NOTE 3 PORTFOLIO INVESTMENTS (in millions)

	2012			2011		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits and short-term securities [(a)]	$ 99	$ 99	0.6	$ 119	$ 119	0.7
Bonds and mortgages [(b)]	3,474	3,570	21.7	3,948	3,954	25.6
	3,573	3,669	22.3	4,067	4,073	26.3
Equities						
Canadian [(c)]	1,209	1,272	7.8	1,214	1,414	9.2
Global developed [(d)]	5,505	5,825	35.3	5,141	5,412	35.0
Emerging markets [(e)]	523	561	3.4	46	45	0.3
Private [(f)]	901	1,047	6.4	797	845	5.5
	8,138	8,705	52.9	7,198	7,716	50.0
Inflation sensitive and alternative investments						
Real estate [(g)]	1,829	2,537	15.4	1,544	1,987	12.9
Inflation sensitive real return bonds	-	-	-	4	5	-
Infrastructure [(h)]	1,030	1,038	6.3	641	587	3.8
Absolute return strategy hedge funds [(i)]	-	-	-	720	788	5.1
Timberland [(j)]	248	297	1.8	205	216	1.4
Private debt and loan [(k)]	197	209	1.3	76	75	0.5
	3,304	4,081	24.8	3,190	3,658	23.7
Total Investments [(l)]	**$ 15,015**	**$ 16,455**	**100.0**	**$ 14,455**	**$ 15,447**	**100.0**

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the *Statement of Investment Policies and Goals* (SIP&G) approved by the Minister of Finance. The majority of the Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units (See Note 2e) is based on the Fund's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, of $99 (2011: $105) and short-term securities of nil (2011: $14). Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

b) Bond and mortgage pooled funds include universe bonds totalling $2,459 (2011: $2,883), private mortgages totaling $847 (2011: $797), policy investments of $168 (2011: $148) and other securities of nil (2011: $120). The portfolio includes government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt-related derivatives and loans. Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

NOTE 3 PORTFOLIO INVESTMENTS (in millions) CONTINUED

Included in bonds and mortgages are two policy investments held in the Fund prior to its restructuring in 1996-97. These policy investments include:

- 11% participating first mortgage bonds, due July 31, 2015, principal due $165, current carrying value $165, accrued interest $12.
- Loan, due July 2046, principal due $53, current carrying value $3.

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

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

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

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

g) The Fund's real estate portfolio is comprised of investments in units of AIMCo's Canadian Private Real Estate Pools (80%) and Foreign Private Real Estate Pool (20%). In the Canadian Private Real Estate Pools, real estate is held primarily through intermediary companies which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by provinces and cities in Canada, by property type and tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities.

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

i) Effective April 1, 2011 hedge fund assets are classified under equities in accordance with the Fund's SIP&G and on June 30, 2011 hedge fund assets were transferred to the global developed portfolio. The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

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

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

l) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market and (3) it is settled in the future. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts and collateral accounts, totalled $123 million or 0.7% of total investments (2011: $197 million or 1.3% of total investments).

Net derivative related receivables of $105 are comprised of net receivables from counterparties of $175 and net payables to counterparties of $70. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

At March 31, 2012 the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $6 (2011: $(1)).

NOTE 3 PORTFOLIO INVESTMENTS (in millions) CONTINUED

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of the pooled fund investments at March 31, 2012 (in millions):

	Maturity			2012		2011	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives [c]	59%	22%	19%	$ 1,802	$ 9	$ 1,947	$ 10
Equity replication derivatives [d]	91%	9%	-	8,603	127	8,024	30
Foreign currency derivatives [e]	99%	1%	-	4,416	(12)	6,889	38
Credit risk derivatives [f]	34%	18%	48%	1,544	(19)	1,811	(17)
Derivative related receivables, net					105		61
Deposits in futures contracts margin accounts					13		136
Deposits as collateral for derivative contracts					5		-
Net derivative related investments					$ 123		$ 197

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

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

(c) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

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

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Fund are clearly outlined in the *Statement of Investment Policies and Goals* (SIP&G) approved by the Minister of Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3l). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

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

a) CREDIT RISK

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

The Fund is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2012:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	76%
Speculative Grade (BB+ or lower)	-
Unrated	24%
	100%

The Fund's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3l). The Fund can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Fund's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Fund participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 42% of the Fund's investments, or $6,889 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.2% of total investments (2011: 4.6%).

The following table summarizes the Fund's exposure to foreign currency investments held in pooled investment funds at March 31, 2012:

	($ millions)	
	2012	
Currency	Fair Value	Sensitivity
U.S. dollar	$ 3,679	$ 368
Euro	828	83
Japanese yen	503	50
British pound sterling	532	53
Australian dollar	289	29
Swiss franc	183	18
Other foreign currency	875	87
Total foreign currency investments	$ 6,889	$ 688

c) **INTEREST RATE RISK**

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.2% of total investments (2011: 1.3%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	4%	47%	49%	4.4%

d) **PRICE RISK**

Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.0% of total investments (2011: 4.3%).

e) **LIQUIDITY RISK**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables for investment purchases.

NOTE 5 NET FINANCIAL ASSETS (in millions)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2012	**2011**
Accumulated net income	$ 32,104	$ 31,306
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	(32,309)	(31,511)
Amount Retained for Inflation-proofing	2,376	1,922
	(29,933)	(29,589)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
	(33,419)	(33,075)
Net financial assets, at cost	**$ 14,652**	**$ 14,198**
Net financial assets, at fair value	**$ 16,092**	**$ 15,190**

(a) Section 9.1 of the *Alberta Heritage Savings Trust Fund Act* (the Act) and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the fund,

(b) During the year, the Fund earned net income of $798 million of which, $454 million was retained in the Fund for inflation proofing and $344 million is payable to the General Revenue Fund. Section 8(2) of the Act states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Minister of Finance. If the income of the Fund is less than that required to be retained, then the income, if any, shall be retained in the Fund. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation-proofing by the estimated percentage increase in the Canadian gross domestic product implicit price index (GDP Deflator Index) for the year. In accordance with section 11(3), if the GDP Deflator Index is a negative number, that negative number shall be treated as if it were zero.

(c) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

NOTE 6 INVESTMENT INCOME (in millions)

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

	2012	2011
Interest-bearing securities	$ 275	$ 259
Equities		
Canadian	41	288
Global	319	409
Private	44	52
	404	749
Inflation sensitive and alternative investments		
Real estate	205	106
Infrastructure	(1)	29
Timberland	9	2
Private debt and loan	4	-
Inflation sensitive real return bonds	1	7
	218	144
	$ 897	**$ 1,152**

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The investment income for the year ended March 31, 2012 includes writedowns totalling $271 (2011: $54).

NOTE 7 INVESTMENT EXPENSES (in millions)

	2012	2011
Interest-bearing securities	$ 5	$ 3
Equities	63	45
Inflation sensitive and alternative investments	22	17
Investment administration expenses	9	7
Total Investment Expenses	**$ 99**	**$ 72**
Average fair value of investments	$ 15,951	$ 14,915
Per cent of investments at average fair value	0.62%	0.48%

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

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds.

Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

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 provides investment accounting, reporting and treasury management services for the Fund. A portion of these costs are charged to the Fund.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	2012	2011 restated [d]	5 years	10 years
Estimated return [b]	8.2%	10.4%	2.7%	5.7%
Estimated policy benchmark return [b]	5.6%	9.6%	2.9%	5.3%
Value added (lost) by investment manager [c]	2.6%	0.8%	-0.2%	0.4%

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

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

(c) In the *Statement of Investment Policies and Guidelines*, the Minister of Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

(d) The benchmark return reported for 2011 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2011 financial statements. As a result, the benchmark return changed from 9.4% to 9.6%.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2011-12 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

March 31, 2012

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Scholarship Fund, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Scholarship Fund as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

June 8, 2012

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2012

	2012 ($ thousands)	2011 ($ thousands)
Financial assets		
Portfolio investments (Note 3)	$ 717,489	$ 720,766
	$ 717,489	**$ 720,766**
Liabilities		
Payable from purchase of investments and amounts payable	$ 2,007	$ 26
Net financial assets (Note 5)	715,482	720,740
	$ 717,489	**$ 720,766**

Statement of Operations and Net Financial Assets

Year Ended March 31, 2012

	2012 Budget ($ thousands)	2012 Actual ($ thousands)	2011 Actual ($ thousands)
Investment income (Note 6)	$ 52,601	$ 35,119	$ 66,122
Investment expenses (Note 7)	(3,320)	(4,215)	(2,699)
Net investment income	49,281	30,904	63,423
Transfers from Alberta Government departments	200	-	707
Other contributions	240	541	1,087
Transfers for Scholarships to the Ministries of:			
Advanced Education and Technology	(36,273)	(36,643)	(36,720)
Culture and Community Spirit	-	(60)	(60)
	(36,273)	(36,703)	(36,780)
Change in net financial assets	**$ 13,448**	(5,258)	28,437
Net financial assets at beginning of year		720,740	692,303
Net financial assets at end of year		**$ 715,482**	**$ 720,740**

The accompanying notes are part of these financial statements.

Statement of Cash Flows
Year Ended March 31, 2012

	($ thousands)	
	2012	**2011**
Operating transactions		
Net investment income	$ 30,904	$ 63,423
Non-cash items included in net investment income	(6,698)	(16,422)
	24,206	47,001
Decrease in receivables	-	2,677
Increase (decrease) in payables	1,981	(40)
Cash provided by operating transactions	26,187	49,638
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	244,066	221,770
Purchase of investments	(240,298)	(234,221)
Cash provided by (applied to) investing transactions	3,768	(12,451)
Transfers		
Transfers from Alberta Government departments	-	707
Other contributions	541	1,087
Transfers for Scholarships	(36,703)	(36,780)
Cash applied to transfers	(36,162)	(34,986)
(Decrease) increase in cash	(6,207)	2,201
Cash at beginning of year	12,984	10,783
Cash at end of year	$ 6,777	$ 12,984
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 6,777	$ 12,984

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) FUTURE CHANGE IN ACCOUNTING POLICY

Government must adopt the new standard PS 3450 - Financial Instruments by fiscal year 2015-16 but has the option to adopt earlier. The impact of this on government financial statements is currently being analyzed. All government controlled organizations will adopt this standard in fiscal year 2012-13.

When the Fund adopts this standard it will be applied on a prospective basis. As a result, comparative amounts will not be restated. The primary changes to the Fund's financial statements when it is adopted will be as follows:

i) The carrying amount of the financial instruments included in portfolio investments will be recorded based on their fair value. Currently, portfolio investments are recorded at cost.

ii) Unrealized gains and losses will be recorded in the new statement of re-measurement gains and losses. Currently unrealized gains and losses are not recorded in the financial statements.

iii) Disclosure of the hierarchy of inputs used in the determination of fair value for investments will be reported according to the following levels:

(a) Level one: fair value is based on quoted prices in an active market.

(b) Level two: fair value is based on model-based valuation methods for which all significant assumptions are observable in the market or quoted prices for similar but identical assets.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

b) PORTFOLIO INVESTMENTS

The Fund invests in units of pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investments 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

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

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

c) INVESTMENT INCOME AND EXPENSES

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

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

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

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

d) 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.

e) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3. The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

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

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

i) Public interest-bearing securities and equities are valued at the year end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Mortgages and private interest-bearing debt are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

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

iv) The estimated fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of hedge fund 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.

f) VALUATION OF DERIVATIVE CONTRACTS

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

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

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap.

vi) Warrants and rights are valued at the year end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

g) MEASUREMENT UNCERTAINTY

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

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

NOTE 3 PORTFOLIO INVESTMENTS (in thousands)

	2012			2011		
	Cost	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits and short-term securities [(a)]	$ 6,777	$ 6,777	0.9	$ 13,675	$ 13,678	1.8
Bonds and mortgages [(b)]	164,919	169,881	22.0	202,571	203,004	26.9
	171,696	176,658	22.9	216,246	216,682	28.7
Equities						
Canadian [(c)]	57,056	60,316	7.8	60,307	70,349	9.3
Global developed [(d)]	283,833	296,969	38.5	299,954	310,583	41.1
Emerging markets [(e)]	24,778	26,544	3.4	2,096	1,914	0.3
Private [(f)]	25,170	28,496	3.7	19,098	19,798	2.6
	390,837	412,325	53.4	381,455	402,644	53.3
Inflation sensitive and alternative investments						
Real estate [(g)]	83,508	107,358	13.9	70,599	82,591	11.0
Inflation sensitive real return bonds	-	-	-	222	242	-
Infrastructure [(h)]	65,639	68,734	8.9	30,023	29,680	3.9
Absolute return strategy hedge funds [(i)]	-	-	-	18,857	19,746	2.6
Timberland [(j)]	2,574	3,079	0.4	2,122	2,241	0.3
Private debt and loan [(k)]	3,235	3,429	0.4	1,242	1,230	0.2
	154,956	182,600	23.7	123,065	135,730	18.0
Total investments [(l)]	**$717,489**	**$771,583**	**100.0**	**$720,766**	**$755,056**	**100.0**

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

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, of $6,777 (2011: $12,984) and short-term securities of nil (2011: $691). Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

b) Bond and mortgage pooled funds include universe bonds totalling $125,424 (2011: $166,507) and private mortgages totaling $39,495 (2011: 36,064). The portfolio includes government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements and debt related derivatives. Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

c) Canadian public equity pooled funds include directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets

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NOTE 3 PORTFOLIO INVESTMENTS (in thousands) CONTINUED

through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

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

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

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

g) The Fund's real estate portfolio is comprised of investments in units of AIMCo's Canadian Private Real Estate Pools (79%) and Foreign Private Real Estate Pool (21%). In the Canadian Private Real Estate Pools, real estate is held primarily through intermediary companies which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by provinces and cities in Canada, by property type and tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities.

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

i) Effective April 1, 2011 hedge fund assets are classified under equities in accordance with the Fund's SIP&G and on June 30, 2011 hedge fund assets were transferred to the global developed portfolio. The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

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

k) The private debt and loan pooled fund holds investments that are in Canada, the United

States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

l) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market and (3) it is settled in the future. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts and collateral deposits, totalled $5,855 thousand or 0.8% of total investments (2011: $9,426 thousand or 1.2% of total investments).

Net derivative related receivables of $5,002 are comprised of net receivables from counterparties of $8,896 and net payables to counterparties of $3,894. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

At March 31, 2012, the value of equity index swap contracts includes amounts related to counter-parties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $267 (2011: $(207)).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of the pooled fund investments at March 31, 2012 (in thousands):

	Maturity			2012		2011	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives (c)	58%	22%	19%	$ 89,609	$ 486	$ 107,893	$ 478
Equity replication derivatives (d)	91%	9%	-	434,697	6,601	470,564	1,537
Foreign currency derivatives (e)	99%	1%	-	206,692	(1,118)	359,413	1,113
Credit risk derivatives (f)	34%	18%	48%	78,753	(967)	100,860	(933)
Derivative related receivables, net					5,002		2,195
Deposits in futures contracts margin accounts					608		7,231
Deposits as collateral for derivative contracts					245		-
Net derivative related investments					$ 5,855		$ 9,426

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

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

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NOTE 3 PORTFOLIO INVESTMENTS (in thousands) CONTINUED

(c) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

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

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

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the *Statement of Investment Policies and Goals* (SIP&G) approved by the Minister of Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3l). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

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

a) CREDIT RISK

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

The Fund is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo.

The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2012:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	82%
Speculative Grade (BB+ or lower)	-
Unrated	18%
	100%

The Fund's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3l). The Fund can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Fund's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Fund participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect. Approximately 43% of the Fund's investments, or $334 million, are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar (23%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.3% of total investments (2011: 5.0%).

The following table summarizes the Fund's exposure to foreign currency investments held in pooled investment funds at March 31, 2012:

	($ millions)	
	2012	
Currency	**Fair Value**	**Sensitivity**
U.S. dollar	$ 177	$ 18
Euro	39	4
Japanese yen	26	3
British pound sterling	27	3
Australian dollar	13	1
Swiss franc	9	1
Other foreign currency	43	4
Total foreign currency investments	$ 334	$ 34

c) **INTEREST RATE RISK**

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.3% of total investments (2011: 1.5%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	**< 1 year**	**1 - 5 years**	**Over 5 years**	**Average Effective Market**
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	4%	46%	50%	4.5%

d) **PRICE RISK**

Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.8% of total investments (2011: 4.6%).

e) **LIQUIDITY RISK**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include annual scholarships and payables for investment purchases.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to (from) the Fund since its inception in 1981:

	Cumulative since 1981	
	2012	2011
Transfers from the Aberta Heritage Savings Trust Fund [a]	$ 100,000	$ 100,000
Transfers from the General Revenue Fund [b]	497,000	497,000
Other contributions	20,432	19,891
Accumulated investment income	622,423	591,519
Accumulated scholarship payments [a]	(524,373)	(487,670)
Net financial assets, at cost	**$ 715,482**	**$ 720,740**
Net financial assets, at fair value	**$ 769,576**	**$ 755,030**

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

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

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2012	2011
Interest-bearing securities	$ 12,398	$ 12,450
Equities		
Canadian	1,704	28,458
Global	12,380	15,573
Private	474	1,003
	14,558	45,034
Inflation sensitive and alternative investments		
Real estate	8,043	4,265
Infrastructure	(79)	1,882
Absolute return strategy hedge funds	-	2,164
Timberland	93	25
Private debt and loan	71	7
Inflation sensitive real return bonds	35	295
	8,163	8,638
	$ 35,119	**$ 66,122**

Financial Information

NOTE 6 INVESTMENT INCOME (in thousands) CONTINUED

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The investment income for the year ended March 31, 2012 includes writedowns totalling $13,090 (2011: $1,964).

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2012	2011
Interest-bearing securities	$ 260	$ 172
Equities	2,552	1,228
Inflation sensitive and alternative investments	899	906
Investment administration expenses	504	393
Total Investment Expenses	**$ 4,215**	**$ 2,699**
Average fair value of investments	$ 763,320	$ 732,541
Per cent of investments at average fair value	0.55%	0.37%

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

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds.

Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. 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 provides investment accounting, reporting and treasury management services for the Fund. A portion of these costs are charged to the Fund.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value (a)	2012	2011 restated (c)	5 years	10 years
Estimated return (b)	7.2%	11.2%	2.6%	5.6%
Estimated policy benchmark return (b)	5.4%	10.8%	3.0%	5.4%
Value added (lost) by investment manager	1.8%	0.4%	-0.4%	0.2%

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

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

(c) The benchmark return for 2011 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2011 financial statements. As a result, the benchmark return changed from 10.6% to 10.8%.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2011-12 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SCIENCE and ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2012

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

June 8, 2012

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2012

	($ thousands) 2012	2011
Financial assets		
Portfolio investments (Note 3)	$ 719,773	$ 726,838
Receivable from sale of investments	2,000	-
	$ 721,773	$ 726,838
Liabilities		
Payable from purchase of investments and amounts payable	$ 596	$ 26
Net financial assets (Note 5)	721,177	726,812
	$ 721,773	$ 726,838

Statement of Operations and Net Financial Assets

Year Ended March 31, 2012

	($ thousands) 2012		2011
	Budget	Actual	Actual
Investment income (Note 6)	$ 52,477	$ 40,521	$ 56,906
Investment expense (Note 7)	(3,944)	(4,656)	(3,480)
Net investment income	48,533	35,865	53,426
Transfers to the Ministry of Advanced Education and Technology (Note 5b)	(41,500)	(41,500)	(34,500)
Change in net financial assets	$ 7,033	(5,635)	18,926
Net financial assets at beginning of year		726,812	707,886
Net financial assets at end of year		$ 721,177	$ 726,812

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2012

	($ thousands) 2012	2011
Operating transactions		
Net investment income	$ 35,865	$ 53,426
Non-cash items included in net investment income	(9,484)	(8,863)
	26,381	44,563
(Increase) decrease in receivables	(2,000)	1,500
Increase (decrease) in payables	570	(38)
Cash provided by operating transactions	24,951	46,025
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	238,501	183,419
Purchase of investments	(227,088)	(190,493)
Cash applied to investing transactions	11,413	(7,074)
Transfers		
Transfers to the Ministry of Advanced Education and Technology	(41,500)	(34,500)
Cash applied to transfers	(41,500)	(34,500)
Decrease in cash	(5,136)	4,451
Cash at beginning of year	11,686	7,235
Cash at end of year	$ 6,550	$ 11,686
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 6,550	$ 11,686

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) FUTURE CHANGE IN ACCOUNTING POLICY

Government must adopt the new standard PS 3450 - Financial Instruments by fiscal year 2015-16 but has the option to adopt earlier. The impact of this on government financial statements is currently being analyzed. All government controlled organizations will adopt this standard in fiscal year 2012-13.

When the Fund adopts this standard it will be applied on a prospective basis. As a result, comparative amounts will not be restated. The primary changes to the Fund's financial statements when it is adopted will be as follows:

i) The carrying amount of the financial instruments included in portfolio investments will be recorded based on their fair value. Currently, portfolio investments are recorded at cost.

ii) Unrealized gains and losses will be recorded in the new statement of re-measurement gains and losses. Currently unrealized gains and losses are not recorded in the financial statements.

iii) Disclosure of the hierarchy of inputs used in the determination of fair value for investments will be reported according to the following levels:

- (a) Level one: fair value is based on quoted prices in an active market.
- (b) Level two: fair value is based on model-based valuation methods for which all significant assumptions are observable in the market or quoted prices for similar but identical assets.
- (c) Level three: fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

b) PORTFOLIO INVESTMENT

The Fund invests in units of pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investments funds have a

market-based unit value that is used to allocated income to pool participants and to value purchases and sales of pool units. Pooled investment funds include financial instruments (including derivatives), investments receivables and liabilities, and cash.

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

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

c) INVESTMENT INCOME AND EXPENSES

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

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

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

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

d) 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.

e) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

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

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

i) Public interest-bearing securities and equities are valued at the year end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

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

iii) The fair value of private equities and infrastructure investments is estimated by managers or general partners of private equity and infrastructure funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analyses.

iv) The estimated fair value of real estate investments is reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows.

v) The fair value of hedge fund 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.

f) 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,

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

equity index futures contracts and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap.

vi) Warrants and rights are valued at the year end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

g) MEASUREMENT UNCERTAINTY

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

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

NOTE 3 PORTFOLIO INVESTMENTS (in thousands)

	2012			2011		
	Cost	Fair Value	%	Cost	Fair Value	%
Interest-bearing securities						
Deposits and short-term securities [(a)]	$ 6,550	$ 6,550	0.8	$ 12,393	$ 12,396	1.6
Bonds and mortgages [(b)]	158,047	162,920	20.9	197,645	198,342	25.8
	164,597	169,470	21.7	210,038	210,738	27.4
Equities						
Canadian [(c)]	59,038	61,498	7.9	60,695	70,081	9.1
Global developed [(d)]	275,063	291,098	37.3	269,819	284,080	37.0
Emerging markets [(e)]	24,907	26,818	3.4	2,032	1,968	0.3
Private [(f)]	24,492	27,206	3.5	24,911	25,698	3.3
	383,500	406,620	52.1	357,457	381,827	49.7
Inflation sensitive and alternative						
Real estate [(g)]	83,769	111,503	14.3	70,272	85,971	11.2
Inflation sensitive real return bonds	-	-	-	222	242	-
Infrastructure [(h)]	67,141	69,330	8.9	39,576	37,489	4.9
Absolute return strategy hedge funds [(i)]	-	-	-	36,437	39,041	5.1
Timberland [(j)]	11,039	13,208	1.7	9,103	9,613	1.2
Private debt and loan [(k)]	9,727	10,310	1.3	3,733	3,699	0.5
	171,676	204,351	26.2	159,343	176,055	22.9
Total investments [(l)]	**$719,773**	**$780,441**	**100.0**	**$726,838**	**$768,620**	**100.0**

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

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flow, of $6,550 (2011: $11,686) and short-term securities of nil (2011: $707). Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

b) Bond and mortgage pooled funds include universe bonds totalling $118,920 (2011: $162,034) and private mortgages totaling $39,127 (2011: $35,607). The portfolio includes government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements and debt related derivatives. Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

c) Canadian public equity pooled funds include directly held investments in

NOTE 3 PORTFOLIO INVESTMENTS CONTINUED

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

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

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

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

g) The Fund's real estate portfolio is comprised of investments in units of AIMCo's Canadian Private Real Estate Pools (79%) and Foreign Private Real Estate Pool (21%). In the Canadian Private Real Estate Pools, real estate is held primarily through intermediary companies which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by provinces and cities in Canada, by property type and tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities.

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

i) Effective April 1, 2011 hedge fund assets are classified under equities in accordance with the Fund's SIP&G and on June 30, 2011 hedge fund assets were transferred to the global developed portfolio. The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

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

k) The private debt and loan pooled fund holds investments that are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investments grade, i.e. BB and lower. These investments may include senior secured loans, leverages loans, mezzanine debt and convertible debt.

l) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market and (3) it is settled in the future. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts and collateral deposits, totalled $5,717 thousand or 0.7% of total investments (2011: $10,005 thousand or 1.3% of total investments).

Net derivative related receivables of $4,887 are comprised of net receivables from counterparties of $8,609 and net payables to counterparties of $3,722. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

At March 31,2012, the value of equity index swap contracts includes amounts related to counter-parties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $306 (2011: $(53)).

The following is a summary of the Fund's proportionate share of the notional amount and fair value of each class of derivative financial instrument included in the fair value of pooled fund investments at March 31, 2012 (in thousands):

	Maturity			2012		2011	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives [c]	58%	23%	19%	$ 86,513	$ 435	$ 102,856	$ 540
Equity replication derivatives [d]	91%	9%	-	427,952	6,312	419,855	1,556
Foreign currency derivatives [e]	99%	1%	-	229,459	(942)	361,194	1,944
Credit risk derivatives [f]	34%	18%	48%	74,775	(918)	98,226	(909)
Derivative related receivables, net					4,887		3,131
Deposits in futures contracts margin accounts					591		6,874
Deposits as collateral for derivative contracts					239		-
Net derivative related investments					$ 5,717		$ 10,005

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

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

(c) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

Financial Information

NOTE 3 PORTFOLIO INVESTMENTS CONTINUED

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

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

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Fund are clearly outlined in the *Statement of Investment Policies and Goals* (SIP&G) approved by the Minister of Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3l). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

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

a) CREDIT RISK

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

The Fund is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31,2012:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	80%
Speculative Grade (BB+ or lower)	-
Unrated	20%
	100%

The Fund's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3l). The Fund can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Fund's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Fund participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) **FOREIGN CURRENCY RISK**

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 42% of the Fund's investments, or $326 million, are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.2% of total investments (2011: 4.7%).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Fund's exposure to foreign currency investments held in pooled investment funds at March 31, 2012:

	($ millions)	
	2012	
Currency	Fair Value	Sensitivity
U.S. dollar	$ 169	$ 17
Euro	39	4
Japanese yen	25	3
British pound sterling	26	3
Australian dollar	15	1
Swiss franc	9	1
Other foreign currency	43	4
Total foreign currency investments	$ 326	$ 33

c) **INTEREST RATE RISK**

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.2% of total investments (2011: 1.4%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	4%	46%	50%	4.5%

d) **PRICE RISK**

Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. If equity market indices declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.9% of total investments (2011: 4.4%).

e) **LIQUIDITY RISK**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's future liabilities include transfers to Advanced Education and Technology and payables for investment purchases.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 2000:

	Cumulative since 2000	
	2012	2011
Transfers from the General Revenue Fund [a]	$ 721,430	$ 721,430
Accumulated investment income	242,733	206,868
Accumulated transfers for research and innovation [b]	(242,986)	(201,486)
Net financial assets, at cost	**$ 721,177**	**$ 726,812**
Net financial assets, at fair value	**$ 781,845**	**$ 768,594**

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

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

	($ thousands)
	2012
Accumulated unused spending limit at March 31, 2011	$ 25,856
4.5% of average market value on March 31, 2009-11	32,130
Spending limit for year ended March 31, 2012	57,986
Transfers to AET during 2011-12	(41,500)
Accumulated unused spending limit at March 31, 2012	16,486
4.5% of average market value on March 31, 2010-12	34,183
Spending limit for year ended March 31, 2013	$ 50,669

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2012	2011
Interest-bearing securities	$ 12,011	$ 10,828
Equities		
Canadian	2,191	13,607
Global	15,393	19,118
Private	1,773	1,820
	19,357	34,545
Inflation sensitive and alternative investments		
Real estate	8,639	4,510
Infrastructure	(133)	2,088
Absolute return strategy hedge funds	-	4,515
Timberland	399	105
Private debt and loan	214	20
Inflation sensitive real return bonds	34	295
	9,153	11,533
	$ 40,521	**$ 56,906**

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The investment income for the year ended March 31, 2012 includes writedowns totalling $12,471 (2011: $2,775).

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2012	2011
Interest-bearing securities	$ 253	$ 152
Equities	2,825	1,622
Inflation sensitive and alternative investments	1,067	1,276
Investment administration expenses	511	430
Total Investment Expenses	**$ 4,656**	**$ 3,480**
Average fair value of investments	$ 774,531	$ 747,802
Per cent of investments at average fair value	0.60%	0.47%

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

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds.

Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. 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 provides investment accounting, reporting and treasury management services for the Fund. A portion of these costs are charged to the Fund.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2012	2011 restated [(c)]	5 years	10 years
Estimated return [(b)]	7.5%	10.6%	2.0%	5.2%
Estimated policy benchmark return [(b)]	5.4%	9.9%	2.4%	5.0%
Value added (lost) by investment manager	2.1%	0.7%	-0.4%	0.2%

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

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

(c) The benchmark return reported for 2011 has been restated to conform with the changes made by AIMCo subsequent to the completion of the 2011 financial statements. As a result, the benchmark return changed from 9.7% to 9.9%.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2011-12 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA LOTTERY FUND

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Lottery Fund which comprise the balance sheet as at March 31, 2012, and the statements of revenue, expenditure and fund equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Lottery Fund as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 5, 2012

Edmonton, Alberta

Balance Sheet
At March 31

(thousands of dollars)	2012	2011
ASSETS		
Cash and cash equivalents (Note 3)	$ 59,257	$ 152,194
Due from Alberta Gaming and Liquor Commission (Note 5)	100,451	80,549
	$ 159,708	$ 232,743
LIABILITIES AND FUND EQUITY		
Accounts payable (Note 6)	$ 106,933	$ 179,968
Fund equity	52,775	52,775
	$ 159,708	$ 232,743

The accompanying notes are part of these financial statements.

Approved by:

BOARD	MANAGEMENT
[original signed by]	[original signed by]
Marguerite J. Trussler Chairperson of the Board Alberta Gaming and Liquor Commission	Gill Hermanns Acting Chief Executive Officer Alberta Gaming and Liquor Commission

Financial Information

Statement of Revenue, Expenditure and Fund Equity

For the year ended March 31

(thousands of dollars)	Budget 2012 (Note 9)	Actual 2012	Actual 2011
REVENUE			
Proceeds from lottery operations (Note 7)	$ 1,388,468	$ 1,471,014	$ 1,440,677
Interest	2,000	4,520	3,611
	1,390,468	1,475,534	1,444,288
EXPENDITURE			
Transfers to Departments (Note 8)	1,390,468	1,475,534	1,444,288
Excess of revenue over expenditure for the year	-	-	-
Fund equity, beginning of year	52,775	52,775	52,775
Fund equity, end of year	$ 52,775	$ 52,775	$ 52,775

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012

NOTE 1 AUTHORITY AND PURPOSE

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

The *Appropriation Act, 2011* authorized payments from the Lottery Fund as presented in the 2011-2012 Estimates, and provided for flexibility in the amount allocated from the Lottery Fund to the General Revenue Fund so that the net balance of the Lottery Fund would be zero at the year ended March 31, 2012.

All authorized payments from the Lottery Fund are made to the General Revenue Fund to finance eligible initiatives; in prior years, eligible initiatives were funded directly from the Lottery Fund. The transfer of funds to certain programs is based on gaming proceeds generated at related gaming facilities, in accordance with government policy direction. For these programs, the amount transferred may differ from the budgeted amount.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

Cash Flows

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

Valuation of Financial Assets and Liabilities

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

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

Net Assets / Net Liabilities

Net assets / net liabilities represent the difference between the carrying value of assets held by the Lottery Fund and its liabilities.

Canadian public sector accounting standards require a “net debt” presentation for the statements of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The Lottery Fund operates within the government reporting entity, and finances all its expenditures by the revenues received. Accordingly, the difference is reported as “fund equity”.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. For the year ended March 31, 2012, securities held by the Fund had a time-weighted return of 1.26% per annum (March 31, 2011: 1.05% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

NOTE 4 RELATED PARTY TRANSACTIONS

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

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

NOTE 5 DUE FROM THE ALBERTA GAMING AND LIQUOR COMMISSION

This amount represents the portion of the revenues from lottery operations which has not been transferred by the Alberta Gaming and Liquor Commission (AGLC) to the Alberta Lottery Fund at year end.

(thousands of dollars)	2012	2011
Due from AGLC, beginning of year	$ 80,549	$ 74,862
Transferable from AGLC	1,471,014	1,440,677
Transfers from AGLC	(1,451,112)	(1,434,990)
Due from AGLC, end of year	$ 100,451	$ 80,549

NOTE 6 ACCOUNTS PAYABLE

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

NOTE 7 PROCEEDS FROM LOTTERY OPERATIONS

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

(thousands of dollars)	2012	2011
Income from gaming terminals	$ 857,428	$ 809,010
Income from video lottery terminals	499,573	492,734
Income from ticket lottery	299,382	318,884
Income from electronic bingo	8,500	7,983
Less operating expenses	(193,869)	(187,934)
Proceeds from lottery operations	$ 1,471,014	$ 1,440,677

NOTE 8 TRANSFERS TO DEPARTMENTS

Transfers to support volunteer, public and community based initiatives:

(thousands of dollars)	2012	2011
General Revenue Fund	$ 1,475,534	$ 1,444,288

NOTE 9 BUDGET

The 2012 budgeted expenditures were authorized in total by the *Appropriation Act, 2011* on April 29, 2011.

NOTE 10 COMPARATIVE FIGURES

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

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ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Risk Management Fund, which comprise the statement of financial position as at March 31, 2012, and the statement of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Risk Management Fund as at March 31, 2012, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2012

	($ thousands) 2012	2011
Assets		
Cash and cash equivalents (Note 3)	$ 42,300	$ 39,711
Receivable from Province of Alberta	154	141
Accrued recoveries (Note 4)	2,551	2,503
Computer software	151	201
	$ 45,156	$ 42,556
Liabilities and net liabilities		
Liabilities		
Accounts payable (Note 5)	$ 977	$ 781
Liability for accrued claims (Note 6)	30,544	33,446
	31,521	34,227
Net assets	13,635	8,329
	$ 45,156	$ 42,556

The accompanying notes are part of these financial statements.

Financial Information

Statement of Operations
Year Ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual
	($ thousands)		
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 12,672	$ 13,925	$ 13,804
Other entities	1,568	573	572
Subrogation and salvage	300	161	289
Recoveries	-	40	1,942
Interest	1,734	567	472
	16,274	15,266	17,079
Expenses			
Insurance claims (Note 7)	13,604	4,552	12,301
Insurance premiums to insurers	3,035	3,018	2,754
Administration	1,564	1,529	1,542
Other services	835	811	815
Amortization of computer software	-	50	-
	19,038	9,960	17,412
Net (expense) revenue	$ (2,764)	5,306	(333)
Net assets at beginning of year		8,329	8,662
Net assets at end of year		$ 13,635	$ 8,329

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2012

	($ thousands) 2012	2011
Operating transactions		
Net revenue (expense)	$ 5,306	$ (333)
Amortization of tangible capital assets	50	-
Increase in accrued recoveries	(48)	(1,920)
(Increase) decrease in receivables	(13)	119
Increase in payables	196	404
(Decrease) increase in liabilities for accrued claims	(2,902)	4,033
Cash provided by operating transactions	2,589	2,303
Capital transactions		
Purchase of computer software	-	(201)
Cash applied to capital transactions	-	(201)
Decrease in cash	2,589	2,102
Cash and cash equivalents, beginning of year	39,711	37,609
Cash and cash equivalents, end of year	$ 42,300	$ 39,711

Notes to the Financial Statements

March 31, 2012

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

The Alberta Risk Management Fund (the Fund) operates under the authority of the *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000.

The Fund provides risk management and insurance services to government departments, funds and agencies, members of the Legislative Assembly and others by assuming general and automobile liability and the risk of losses due to automobile physical damage, property damage and crime in exchange for premiums related to the level of risk assumed.

In the ordinary course of business, the Fund insures certain risks for the purpose of limiting its exposure to large or unusual risks. As such, the Fund enters into excess of loss contracts with only the most credit-worthy insurance companies and is required to pay for all losses up to certain predetermined amounts. The insurance companies compensate the Fund for any losses above the agreed predetermined amounts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) Claims provisions, including provisions for claims incurred but not reported, are based on estimates made by management. The provisions are adjusted in the period when more experience is acquired and as additional information is obtained.

b) In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

   Measurement uncertainty that is material in these financial statements exists in the estimation of the Fund's liability for accrued claims. Uncertainty arises because the Fund's actual loss experience may differ, perhaps significantly, from assumptions used in the estimation of the Fund's liability for accrued claims. (see Note 6(b)).

   Liability for accrued claims, recorded as $30.5 million (2011: $33.4 million) in these financial statements, is subject to measurement uncertainty. This is because the ultimate disposition of claims incurred prior to the financial statement date is subject to the outcome of events that have not yet occurred, and any estimate of future costs has inherent limitations due to management's limited ability to predict precisely the aggregate course of future events. Based on an actuarial sensitivity analysis, an estimate of claim liabilities at the high end of a reasonable range is $38.4 million as at March 31, 2012 or $7.9 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 6b).

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

c) The fair values of cash 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.

d) Computer software is recorded at cost. The threshold for capitalizing software is $100,000 where there is a useful life in excess of one year. Amortization is calculated on a straight line of 4 years.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2012 the deposits in the bank had a time weighted return of 1.3% per annum (2011: 1.1% 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) 2012	2011
Payable to Department of Finance	$ 402	$ 423
Other	575	358
	$ 977	$ 781

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $30,544 thousand (2011: $33,446 thousand) is comprised of outstanding claims case reserves and incurred but not reported (IBNR) losses.

a) OUTSTANDING CLAIMS CASE RESERVES

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

NOTE 6 LIABILITY FOR ACCRUED CLAIMS CONTINUED

b) INCURRED BUT NOT REPORTED (IBNR) LOSSES

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

The actuarial estimate of total liability for accrued claims includes case reserves for reported claims as well as an estimate to provide for both development on case reserves and incurred but not reported losses. The actuarial estimate adjusts for the portion of individual large claims that are ceded to third party insurers.

An actuarial review of the Fund's total liability for accrued claims at March 31, 2012 was carried out by KPMG LLP taking into account the historical claims through February 29, 2012 and a one-month roll forward estimate to March 31, 2012.

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:

	2012	2011
Trend rate		
General liability	7.0%	5.0%
Automobile liability	3.0%	3.0%
Property	0.0%	0.0%
Auto physical damage	6.0%	7.5%
Crime	3.0%	3.0%
Loss development factor		
Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada		
Selected loss rate		
General liability: *Loss per person (Alberta population)*	$ 1.20	$ 1.11
Automobile liability: *Loss per vehicle*	$ 95	$ 95
Property: *Loss per $million property values* *	$ 370	$ 265
Auto physical damage: *Loss per vehicle*	$ 185	$ 180
Crime: *Loss per class A and B employee*	$ 40	$ 40

* The selected loss rates for property are not comparable from 2011 to 2012 because the structure of the program changed significantly with respect to limits and deductibles.

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2012:

Sensitivity Tests	Increase in Net Liabilities *($ million)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 6.2
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 20%, depending on coverage type.	$ 6.6
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ 7.9

NOTE 7 INSURANCE CLAIMS

	($ thousands) 2012	2011
Total claims payments during the year	$ 7,454	$ 8,268
Change in claims reserves	(2,902)	4,033
	$ 4,552	$ 12,301

NOTE 8 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2012 are as follows:

	($ thousands)
2012-13	$ 249
2013-14	130
	$ 379

NOTE 9 RELATED PARTY TRANSACTIONS

As disclosed in the financial statements, the Fund has revenues from the Province of Alberta departments, funds, and agencies of $13,925 (2011: $13,804) and an accounts payable to the Department of Finance of $402 (2011: $423).

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statements of financial position as at March 31, 2012 and 2011, and the statements of changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2012 and 2011, and changes in net assets for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statements of Financial Position

As at March 31

	2012	2011
	($ thousands)	
Assets		
Investments (Note 4)	$ 90,671	$ 82,707
Receivable from the Province of Alberta	4,332	141
Receivable from sale of investments	1,300	-
	96,303	82,848
Liabilities		
Liability for investment purchases	209	-
	96,094	82,848
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 9)	96,094	82,848
Net Assets	$ -	$ -

Financial Information

Statements of Changes in Net Assets

Year Ended March 31

	2012	2011
	($ thousands)	
Increase in assets		
Employer contributions	$ 9,008	$ 5,824
Investment income (Note 6)	4,458	6,910
	13,466	12,734
Decrease in assets		
Investment expenses (Note 8)	220	121
	220	121
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(13,246)	(12,613)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	**$ -**	**$ -**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012

(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 CONVERSION TO CANADIAN ACCOUNTING STANDARDS FOR PENSION PLANS

Commencing with the 2011/2012 fiscal year, the Reserve Fund has adopted Canadian accounting standards for pension plans. These financial statements are the first for which the Reserve Fund has applied Canadian accounting standards for pension plans.

The impact of the conversion to Canadian accounting standards for pension plans has not resulted in any change to the net assets and there is no restatement required to prior year amounts on the statement of financial position or the statement of changes in net assets.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Reserve fund adopted the new standards under CICA Section 4600 on April 1, 2011 on a retrospective basis. Additional disclosures have been made to derivative financial instruments (Note 4i) and investment risk management (Note 5) in accordance with IFRS 7, Financial Instruments.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans.

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Reserve Fund 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF ASSETS AND LIABILITIES

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of infrastructure investments is estimated by managers or general partners of limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

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

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

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.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) 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 4i) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. 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 index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask price quoted by an independent securities valuation company.

f) LIABILITIES

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

As at March 31, 2012, current service contributions rates are 31.76% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the *maximum pensionable salary limit.* The rate was determined by the Unregistered Plan's actuary and approved by the Minister of Finance.

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

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

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

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

While best estimates have been used in the valuation of the Fund's private investments and real estate, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

NOTE 4 INVESTMENTS

	($ thousands)			
	2012		2011	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Deposits and short-term securities [(a)]	$ 10,340	11.4	$ 8,795	10.6
Bonds and mortgages [(b)]	30,336	33.5	28,599	34.6
	40,676	44.9	37,394	45.2
Public equities				
Canadian [(c)]	14,630	16.1	11,688	14.1
Global developed [(d)]	30,676	33.8	29,661	35.9
	45,306	50.0	41,349	50.0
Inflation sensitive				
Real estate [(e)]	2,762	3.0	2,349	2.8
Infrastructure and private debt and loans [(f)]	1,560	1.7	1,160	1.4
Real return bonds [(g)]	367	0.4	455	0.6
	4,689	5.2	3,964	4.8
Total investments [(h)(i)]	$ 90,671	100.0	$ 82,707	100.0

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) for the Reserve Fund and the Unregistered Plan approved by the Judges' Pension Plans Investment Committee. The Fund invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Fund's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated

NOTE 4 INVESTMENTS CONTINUED

authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 5).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $10,340 (2011: $8,723) and short-term securities of nil (2011: $72). Terms to maturity and market yield at March 31, 2012 are reported in Note 5c).

b) Investments in bond and mortgage pooled funds include policy allocations to universe bonds totalling $27,147 (2011: $25,231) and mortgages totalling $3,189 (2011: $3,368). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at March 31, 2012 are reported in Note 5c).

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

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity pooled funds invest in directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The pooled funds also have indirect exposure to global developed markets and emerging markets through investments in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the pooled fund's global portfolio includes investments in North American concentrated equities (5 to 20 per cent share of mid-sized North American Companies) and hedge funds. Emerging market pooled funds consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

e) Real estate investments are held in Canadian real estate pooled funds. Real estate is held primarily through intermediary companies which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by provinces and cities in Canada, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities.

f) The Fund holds units of a pooled fund which invests in inflation sensitive real return bonds. This pooled fund is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at March 31, 2012 are reported in Note 5c).

g) Pooled funds invest in infrastructure partnerships totalling $1,384 (2011: $1,097) and private debt and loans totalling $176 (2011: $63). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

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

h) The following table provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Fund's investments.

The measure of reliability is determined based on the following three levels:

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

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable data. Reasonably possible alternative assumptions could yield different fair value measures. As a result, a significant range of measurement uncertainty exists in the valuation of Level 3 investments.

Investment:		**Level One**	**Level Two**	**Level Three ***	**Total**
Interest bearing securities		$ -	$ 37,487	$ 3,189	$ 40,676
Public equities		31,044	11,946	2,316	45,306
Inflation sensitive		-	367	4,322	4,689
2012	**- Total amount**	**$ 31,044**	**$ 49,800**	**$ 9,827**	**$ 90,671**
	- Percent	**34%**	**55%**	**11%**	**100%**
2011	- Total amount	$ 27,958	$ 45,934	$ 8,815	$ 82,707
	- Percent	34%	55%	11%	100%
Increase during the year		**$ 3,086**	**$ 3,866**	**$ 1,012**	**$ 7,964**

*** Reconciliation of Level 3 Fair Value Measurements**

	($ thousands) **2012**	**2011**
Balance, beginning of year	$ 8,815	$ 7,983
Investment income	1,235	788
Purchases of Level 3 pooled fund units	2,273	1,420
Sale of Level 3 pooled fund units	(2,496)	(1,376)
Balance, end of year	**$ 9,827**	**$ 8,815**

Financial Information

Financial Information

NOTE 4 INVESTMENTS CONTINUED

i) Included in the fair value of the Fund's investments in various pooled funds, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $836 or 0.9% (2011: $712 or 0.8%) of total investments.

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at March 31, 2012:

($ thousands)

	2012					2011	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
	%						
Equity replication derivatives [(c)]	95	5	-	$ 40,600	$ 800	$ 43,669	$ 145
Interest rate derivatives [(d)]	59	22	19	16,841	145	14,724	136
Foreign currency derivatives [(e)]	100	-	-	12,497	(21)	29,936	33
Credit risk derivatives [(f)]	33	18	49	16,577	(204)	15,799	(146)
Derivative related receivables, net					720		168
Deposits in futures margin accounts					105		544
Deposits as collateral for derivative contracts					11		-
Net derivative related investments					$ 836		$ 712

Net derivative related receivables of $720 are comprised of net receivables from counterparties of $1,245 and net payables to counterparties of $525. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

(d) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

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

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

At March 31, 2012, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled ($39).

NOTE 5 INVESTMENT RISK MANAGEMENT

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

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

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

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

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

a) CREDIT RISK

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of the Fund's investments in debt securities are with counterparties considered to be investment grade.

The Fund is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2012:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	94%
Speculative Grade (BB+ or lower)	0%
Unrated	5%
	100%

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

To generate additional income, the Fund participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 31% of the Fund's investments, or $29 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (16%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Fund would be approximately 3.1% (2011: 3.6%) of total investments.

The following table summarizes the Fund's exposure to foreign currency investments held in pooled investment funds at March 31, 2012:

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

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Fund would be approximately 2.2% (2011: 2.4%) of total investments.

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	**< 1 year**	**1 - 5 years**	**Over 5 years**	**Average Effective Market Yield**
Deposits and short term securities	91%	9%	0%	1.3%
Bonds and mortgages	4%	44%	52%	4.6%
Real return bonds	12%	1%	87%	0.5%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Fund's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Fund would be approximately 5.0% (2011: 3.6%) of total investments. Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

e) LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include transfers payable to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan and exposure to net payables to counterparties. (Note 4i).

NOTE 6 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

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

	($ thousands) 2012	2011
Interest-bearing securities	$ 2,766	$ 1,791
Canadian equities	(814)	2,077
Foreign equities	1,735	2,674
Real estate	595	255
Infrastructure and private debt and loans	114	69
Real return bonds	62	44
	$ 4,458	**$ 6,910**

NOTE 7 INVESTMENT PERFORMANCE (NET OF INVESTMENT EXPENSES)

Estimated investment returns (net of fees) as shown below are provided for supplementary information purposes. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

	2012	2011 (restated) [d]	Four-Year Compound Annualized Return	Six-Year Compound Annualized Return
Time-weighted rates of return [a]		*in percent*		
Estimated return	**4.8**	**8.8**	**3.1**	**3.2**
Estimated policy benchmark return [b]	*4.2*	*8.8*	*3.4*	*3.6*
Value added (lost) by investment manager	0.6	0.0	(0.3)	(0.4)
Expected value added [c]	0.5	0.5	0.5	0.5

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

(b) Investment returns were provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, hedge funds and private debt. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Judges Pension Plans Investment Committee expects that the investments held by the Fund will return approximately 50 basis points, or 0.5%, above the policy benchmark over 4-year rolling time periods.

(d) The benchmark returns reported for 2011 have been restated to conform with changes made by AIMCo subsequent to the completion of the 2011 financial statements. As a result, the benchmark return changed from 8.7% to 8.8%.

NOTE 8 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. 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 provides investment accounting, reporting and treasury management services for the Fund. A portion of these costs is charged to the Fund.

Investment expenses are provided below:

	($ thousands) 2012	2011
Interest-bearing securities	$ 43	$ 25
Canadian equities	20	11
Foreign equities	131	64
Real estate	11	9
Infrastructure and private debt and loans	15	12
Total investment expenses	$ 220	$ 121
Average fair value of investments	$ 86,689	$ 76,389
Percent of investments at average fair value	0.25%	0.16%
Investment expenses per member	$ 836	$ 455

Financial Information

NOTE 9 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION 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, 2012 by the current actuary, Aon Hewitt.

As at March 31, 2012 the Unregistered Plan reported an actuarial deficit of $5.0 million (2011: surplus of $8.2 million), taking into account the amounts owing from the Reserve Fund.

NOTE 10 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2012 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the statements of financial position as at March 31, 2012 and 2011, and the statements of changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2012 and 2011, and changes in net assets for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statements of Financial Position

As at March 31

	($ thousands) 2012	2011
Assets		
Investments (Note 4)	$51,125	$ 43,075
Receivable from participating employers	197	102
Receivable from sale of investments	100	-
	51,422	43,177
Liabilities		
Liability for investment purchases	(438)	-
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(50,984)	(43,177)
Net Assets	$ -	$ -

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

Statements of Changes in Net Assets

Year Ended March 31

	($ thousands) 2012	2011
Increase in assets		
Employer contributions	$ 5,213	$ 3,265
Investment income (Note 6)	2,782	4,222
	7,995	7,487
Decrease in assets		
Investment expenses (Note 8)	188	109
	188	109
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(7,807)	(7,378)
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, 2012

(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE RESERVE FUND

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

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

NOTE 2 CONVERSION TO CANADIAN ACCOUNTING STANDARDS FOR PENSION PLANS

Commencing with the 2011/2012 fiscal year, the Reserve Fund has adopted Canadian accounting standards for pension plans. These financial statements are the first for which the Reserve Fund has applied Canadian accounting standards for pension plans.

The impact of the conversion to Canadian accounting standards for pension plans has not resulted in any change to the net assets and there is no restatement required to prior year amounts on the statement of financial position or the statement of changes in net assets.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Reserve fund adopted the new standards under CICA Section 4600 on April 1, 2011 on a retrospective basis. Additional disclosures have been made to derivative financial instruments (Note 4j) and investment risk management (Note 5) in accordance with IFRS 7, Financial Instruments.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans.

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Reserve Fund 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF ASSETS AND LIABILITIES

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of private real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

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

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

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

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.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) 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 4j) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. 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 index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask price quoted by an independent securities valuation company.

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, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2012 was 22.6% (2011: 11.4%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

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

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

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

While best estimates have been used in the valuation of the Fund's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

NOTE 4 INVESTMENTS

	($ thousands)			
	2012		2011	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Deposits and short-term securities [(a)]	$ 904	1.8	$ 476	1.1
Bonds and mortgages [(b)]	7,020	13.7	8,834	20.5
	7,924	15.5	9,310	21.6
Public Equities				
Canadian [(c)]	9,467	18.5	8,570	19.9
Global developed [(d)]	26,488	51.8	20,664	48.0
	35,955	70.3	29,234	67.9
Alternative investments				
Private equities [(e)]	1,672	3.3	958	2.2
Real estate [(f)]	2,436	4.8	2,073	4.8
Infrastructure and private debt and loans [(g)]	2,457	4.8	1,004	2.3
Timberland [(h)]	681	1.3	496	1.2
	7,246	14.2	4,531	10.5
Total investments [(i)(j)]	$51,125	100.0	$43,075	100.0

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) of the Reserve Fund and SRP approved by the Supplementary Retirement Pension Plan Committee. The Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Fund's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and units of the pools within the ranges approved for each asset class (see Note 5).

NOTE 4 INVESTMENTS CONTINUED

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $904 (2011: $427) and short-term securities of nil (2011: $49). Terms to maturity and market yield at March 31, 2012 are reported in Note 5c).

b) Investments in bond and mortgage pooled funds include policy allocations to universe bonds totalling $3,754 (2011: $5,810) and mortgages totalling $3,266 (2011: $3,024). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at March 31, 2012 are reported in Note 5c).

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

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity pooled funds invest in directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The pooled funds also have indirect exposure to global developed markets and emerging markets through investments in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the pooled fund's global portfolio includes investments in North American concentrated equities (5 to 20 per cent share of mid-sized North American Companies) and hedge funds. Emerging market pooled funds consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

e) Private equity pooled funds hold foreign private equity investments, including merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions.

f) Real estate investments are held in Canadian real estate pooled funds. Real estate is held primarily through intermediary companies which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by provinces and cities in Canada, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities.

g) Pooled funds invest in infrastructure partnerships totalling $2,210 (2011: $915) and private debt and loans totalling $247 (2011: $89). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks). Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade (i.e., BB or lower). These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

h) Timberland pooled funds invest in Canadian and foreign timberland properties, are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

i) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Fund's investments.

The measure of reliability is determined based on the following three levels:

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

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable data. Reasonably possible alternative assumptions could yield different fair value measures. As a result, a significant range of measurement uncertainty exists in the valuation of Level 3 investments.

	($ thousands)			
Investment:	**Level One**	**Level Two**	**Level Three ***	**Total**
Interest bearing securities	$ -	$ 4,658	$ 3,266	$ 7,924
Public equities	25,000	9,397	1,558	35,955
Alternative investments	-	-	7,246	7,246
2012 - Total Amount	**$ 25,000**	**$ 14,055**	**$ 12,070**	**$ 51,125**
- Percent	**49%**	**27%**	**24%**	**100%**
2011 - Total Amount	$ 19,727	$ 14,421	$ 8,927	$ 43,075
- Percent	46%	33%	21%	100%
Increase (decrease) during the year	**$ 5,273**	**$ (366)**	**$ 3,143**	**$ 8,050**

*** Reconciliation of Level 3 Fair Value Measurements**

	($ thousands)	
	2012	**2011**
Balance, beginning of year	$ 8,927	$ 6,382
Investment income	1,274	683
Purchases of Level 3 pooled fund units	4,434	2,915
Sale of Level 3 pooled fund units	(2,565)	(1,053)
Balance, end of year	**$ 12,070**	**$ 8,927**

Financial Information

NOTE 4 INVESTMENTS CONTINUED

j) Included in the fair value of the Fund's investments in various pooled funds, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $594, or 1.2% of total investments (2011: $522 or 1.2% of total investments).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at March 31, 2012:

($ thousands)

	2012					2011	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [a]	Net Fair Value [b]	Notional Amount [a]	Net Fair Value [b]
		%					
Equity replication derivatives [c]	91	9	-	$ 39,032	$ 613	$ 31,342	$ 108
Interest rate derivatives [d]	58	23	19	11,699	87	5,557	(26)
Foreign currency derivatives [e]	100	-	-	13,326	(26)	21,227	12
Credit risk derivatives [f]	35	18	47	11,435	(137)	3,430	(32)
Derivative related receivables, net					537		62
Deposits in futures margin accounts					36		460
Deposits as collateral for derivative contracts					21		-
Net derivative related investments					$ 594		$ 522

Net derivative related receivables of $537 are comprised of net receivables from counterparties of $952 and net payables to counterparties of $415. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

(d) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

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

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

At March 31, 2012, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $(28).

NOTE 5 INVESTMENT RISK MANAGEMENT

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

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

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

	%		
	Policy Benchmark	Minimum	Maximum
Interest bearing securities	**32**	**25**	**45**
Deposits and short-term securities	0.5	-	5
Bonds and mortgages	31.5	25	40
Equities and alternative investments	**68**		
Public equities	**48**	**35**	**60**
Canadian	14	10	20
Global developed	34	25	40
Alternative investments	**20**	**15**	**30**
Private equities	-	-	5
Real estate	10.5	10	15
Real return bonds	-	-	5
Infrastructure	7.5	5	15
Timberland	2	-	5

a) CREDIT RISK

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of the Fund's investments in debt securities are with counterparties considered to be investment grade.

The Fund is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2012:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	91%
Speculative Grade (BB+ or lower)	0%
Unrated	9%
	100%

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

To generate additional income, the Fund participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 52% of the Fund's investments, or $27 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (28%) and the Euro (7%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Fund would be approximately 5.3% (2011: 4.6%) of total investments.

The following table summarizes the Fund's exposure to foreign currency investments held in pooled investment funds at March 31, 2012:

	($ millions)	
	2012	
Currency	Fair Value	Sensitivity
U.S. dollar	$ 15	$ (1.5)
Euro	3	(0.3)
Japanese yen	2	(0.2)
British pound	2	(0.2)
Australian dollar	1	(0.1)
Swiss franc	1	(0.1)
Other foreign currencies	3	(0.3)
Total foreign currency investments	$ 27	$ (2.7)

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Fund would be approximately 0.9% (2011: 2.3%) of total investments.

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	91%	9%	0%	1.3%
Bonds and mortgages	3%	52%	45%	4.1%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Fund's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Fund would be approximately 7.1% (2011: 4.6%) of total investments. Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

Financial Information

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

e) LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay the supplementary retirement plan for public service managers and operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include the amounts payable to the Supplementary Retirement Plan for Public Service Managers and exposure to net payables to counterparties (Note 4j).

NOTE 6 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

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

	($ thousands) 2012	2011
Interest-bearing securities	$ 815	$ 483
Canadian equities	(570)	1,548
Foreign equities	1,654	1,839
Private equities	152	18
Real estate	523	225
Infrastructure and private debt and loans	102	76
Timberland	106	33
	$ 2,782	**$ 4,222**

NOTE 7 INVESTMENT PERFORMANCE (NET OF INVESTMENT EXPENSES)

Estimated investment returns (net of fees) as shown below are provided for supplementary information purposes and include returns on investments held in the RCA. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

	2012	2011 (restated) [d]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return [a]		*in percent*		
Estimated return	**6.5**	**9.7**	**3.6**	**5.2**
Estimated policy benchmark return [b]	*6.6*	*9.8*	*4.4*	*5.6*
Value added (lost) by investment manager	(0.1)	(0.1)	(0.8)	(0.4)
Expected value added[c]	0.5	0.5	0.5	0.5

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

(b) Investment returns were provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, hedge funds and private debt. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Supplementary Retirement Pension Plan Advisory Committee expects that the investments held by the Fund will return approximately 50 basis points, or 0.5%, above the policy benchmark over 4-year rolling time periods.

(d) The benchmark returns reported for 2011 have been restated to conform with changes made by AIMCo subsequent to the completion of the 2011 financial statements. As a result, the benchmark return changed from 9.7% to 9.8%.

NOTE 8 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pool investment funds

Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. 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 provides investment accounting, reporting and treasury management services for the Fund. A portion of these costs is charged to the Fund.

Investment expenses are provided below:

	($ thousands)	
	2012	2011
Interest-bearing securities	$ 15	$ 9
Canadian equities	14	8
Foreign equities	90	44
Private equities	23	16
Real estate	10	8
Infrastructure and private debt and loans	25	9
Timberland	4	2
Plan Investment expenses	7	13
Total investment expenses	$ 188	$ 109
Average fair value of investments	$ 47,100	$ 39,410
Percent of investments at average fair value	0.40%	0.28%
Investment expenses per member	$ 106	$ 65

NOTE 9 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2009 by Aon Consulting Inc. and was then extrapolated to December 31, 2011.

As at December 31, 2011 the SRP reported an actuarial deficit of $53.5 million (2010 deficit $39.6 million), taking into account the amounts receivable from Reserve Fund.

NOTE 10 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2012 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

Provincial Agencies and Other Government Organizations

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

Year Ended December 31, 2011

These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2011 Annual Report. A complete copy of the ACFA Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ACFA website at www.acfa.gov.ab.ca.

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and accumulated (deficit) surplus and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

March 8, 2012

Edmonton, Alberta

Statements of Financial Position

as at December 31, 2011, December 31, 2010 and January 1, 2010

(in thousands of dollars)

	2011	2010 (See Note 2)	January 1, 2010
Assets:			
Cash	$ 40,027	$ 30,881	$ 13,438
Accounts receivable	4	2	23
Accrued interest receivable	104,924	97,436	94,738
Loans to local authorities (Note 4)	10,841,652	9,524,751	7,918,673
Derivatives in favourable position (Note 6)	514,742	316,145	248,935
	$ 11,501,349	$ 9,969,215	$ 8,275,807
Liabilities:			
Accounts payable	$ 733	$ 655	$ 672
Accrued interest payable	29,418	45,274	50,045
Debt (Note 5)	10,786,470	9,485,085	7,889,102
Derivatives in unfavourable position (Note 6)	1,389,779	476,630	260,412
	12,206,400	10,007,644	8,200,231
Commitments (Note 11)			
Accumulated (Deficit) Surplus:			
Share capital (Note 7)			
Issued and fully paid:			
6,350 shares (2010 – 6,346 shares; January 1, 2010 – 6,345 shares)	64	64	64
Accumulated (deficit) surplus (Note 8):			
Accumulated surplus before changes in fair value of derivatives	134,293	100,076	65,357
Accumulated changes in fair value of derivatives	(839,408)	(138,569)	10,155
Accumulated (deficit) surplus	(705,115)	(38,493)	75,512
	(705,051)	(38,429)	75,576
	$ 11,501,349	$ 9,969,215	$ 8,275,807

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

These financial statements were approved by the Board of Directors.

Original signed by:

Lawrence R. Gordon
Chair of the Board

Original signed by:

Troy Holinski
President

Statements of Operations and Accumulated (Deficit) Surplus

for the years ended December 31

(in thousands of dollars)

	Budget (Note 12)	2011 (See Note 2)	2010
Interest Income:			
Loans	$ 445,989	$ 467,927	$ 420,256
Loan swaps (pay fixed receive floating)	(204,892)	(225,304)	(224,832)
Investments (Note 3(b))	600	521	622
	241,697	243,144	196,046
Interest Expense:			
Debt	302,816	288,870	255,385
Debt swaps (receive fixed pay floating)	(89,241)	(88,927)	(102,324)
Commission fees	12,600	-	-
Amortization of commission fees	-	2,459	2,152
Amortization of net discounts on debt	1,326	6,086	5,364
	227,501	208,488	160,577
Net interest income	14,196	34,656	35,469
Other Income:			
Loan prepayment fees	-	513	123
Net interest income and other income	14,196	35,169	35,592
Non-Interest Expense:			
Administration and office expenses (Note 9)	1,359	952	873
Income before change in fair value of derivative contracts	12,837	34,217	34,719
Unrealized change in fair value of derivative contracts	-	(700,839)	(148,724)
(Deficit) surplus	12,837	(666,622)	(114,005)
Accumulated (deficit) surplus, beginning of year	88,000	(38,493)	75,512
Accumulated (deficit) surplus, end of year	$ 100,837	$ (705,115)	$ (38,493)

Statements of Cash Flow

for the years ended December 31
(in thousands of dollars)

	2011	2010 *(See Note 2)*
Operating Activities:		
Interest received:		
Loans	$ 460,437	$ 417,579
Investments	521	622
Debt swaps (receive fixed pay floating)	95,561	106,321
Loan prepayment fees	513	123
Administration and office expenses	(867)	(877)
Commission fees	(594)	(2,919)
Interest paid:		
Debt	(304,733)	(260,169)
Net (discounts) premiums paid at debt maturity	(7,420)	(8,838)
Loan swaps (pay fixed receive floating)	(218,225)	(228,545)
Cash flows from operating activities	25,193	23,297
Investing Activities:		
Loan repayments	558,690	541,729
New loan issues	(1,875,591)	(2,147,807)
Cash flows used in investing activities	(1,316,901)	(1,606,078)
Financing Activities:		
Debt issues	6,342,634	6,126,386
Debt redemptions	(5,041,780)	(4,526,162)
Cash flows from financing activities	1,300,854	1,600,224
Net increase in cash	9,146	17,443
Cash, beginning of year	30,881	13,438
Cash, end of year	$ 40,027	$ 30,881

Notes to the Financial Statements

December 31, 2011, December 31, 2010 and January 1, 2010

(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 – First-time Adoption of Public Sector Accounting Standards and Changes in Accounting Policies

In 2011, ACFA became a first-time adopter of Canadian public sector accounting standards, which are now used as ACFA's basis of accounting and financial statements reporting. The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) issues public sector accounting standards.

In accordance with *PS 2125 – First-time Adoption by Government Organizations* (PS 2125) the date of transition to the new standards is January 1, 2010 and ACFA has prepared and presented an opening statement of financial position at the date of transition to the new standards. This opening statement of financial position is the starting point for the entity's accounting under the new standards. In its opening statement of financial position, under the recommendations of PS 2125, ACFA:

(a) Recognized all assets and liabilities whose recognition is required by the new standards;

(b) Did not recognize items as assets or liabilities if the new standards do not permit such recognition;

(c) Reclassified items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the new standards; and

(d) Applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of PS 2125, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively excluding cases where optional exemptions available under PS 2125 have been applied. ACFA did not elect to use any of the exemptions permitted in PS 2125.

Prior to the adoption of public sector accounting standards, ACFA accounted for all of its financial instruments, including loans, debt and derivative contracts, at fair value in accordance with CICA accounting standards 3855 – Financial Instruments – Recognition and Measurement and 1530 – Comprehensive Income. Unrealized gains and losses on loans, debt and derivatives were included in net income and comprehensive income.

The impacts of the adoption of the new standards on the opening statement of financial position and retained earnings as at January 1, 2010 and on net income (loss) for the year ended December 31, 2010 are as follows:

(a) Loans to local authorities and debt are to be carried at amortized cost rather than fair value. The adjustment to the January 1, 2010 statement of financial position represents the difference between the fair value and the amortized cost of the loans to local authorities and debt at January 1, 2010. In addition, accrued interest receivable and payable that was previously included in the fair value of the loans to local authorities and debt have been reclassified and reported separately on the statements of financial position.

(b) The category called comprehensive income is no longer required.

(c) Under the new standards, transaction costs like commission fees, as well as discounts or premiums, are added to the carrying value of loans to local authorities and debt, and are amortized over the term to maturity of the respective financial instruments. Prior to the adoption of the new standards, transaction costs were expensed. Discounts and premiums were expensed on debt maturing within a year; otherwise they were factored in the fair value calculation of the respective financial instrument.

On the statement of operations for 2010, the net change of $1,154 is comprised of commission fees of $2,919 that were previously expensed net of $2,152 that is now being deferred and amortized, as well as amortization of debt premiums of $387.

(d) The operating and financing activities in the statements of cash flows for the year ended December 31, 2010 have been decreased and increased, respectively by $3,087, due to the reclassification of certain cash amounts paid or received in respect of premiums and discounts on debt.

The following table summarizes the above changes in ACFA's opening statement of financial position and accumulated surplus as at January 1, 2010 and its net income (loss) for the year ended December 31, 2010 related to the first-time adoption of public sector accounting standards.

	Opening Statement of Financial Position January 1, 2010			
	Previously Reported	Restated	Transition Adjustment	
Assets:				
Cash	$ 13,438	$ 13,438	$ -	
Accounts receivable	-	23	23	
Accrued interest receivable	-	94,738	94,738	(a)
Loans to local authorities	8,347,277	7,918,673	(428,604)	(a)
Derivatives in favourable position	248,935	248,935	-	
	$ 8,609,650	$ 8,275,807	$ (333,843)	
Liabilities:				
Accounts payable	$ 672	$ 672	$ -	
Accrued interest payable	-	50,045	(50,045)	(a)
Debt	8,177,483	7,889,102	288,381	(a)
Derivatives in unfavourable position	260,412	260,412	-	
	$ 8,438,567	$ 8,200,231	$ 238,336	
Cumulative impact of adopting Canadian public sector accounting standards			(95,507)	
Retained earnings, as previously reported			171,019	
Accumulated surplus, restated			**$ 75,512**	
Reconciliation of Net Income (Loss):			**2010**	
Net income and comprehensive income, as previously reported			$ 123,726	(b)
Less: Difference between fair value and amortized cost on loans and debt			(238,885)	(a)
Add: Net change from direct expense to amortization of transaction costs and discounts (premiums)			1,154	(c)
Net (loss), as restated			**$ (114,005)**	(b)

Future Changes in Accounting Policies and Reporting Practices

In June 2011, the Public Sector Accounting Board issued a new accounting standard *PS 3450 – Financial Instruments* (PS 3450). It is effective for government organizations for fiscal years beginning on or after April 1, 2012. Earlier adoption is permitted. PS 3450 is to be applied prospectively without restatement of prior years. In the fiscal year ACFA adopts PS 3450, it must also adopt *PS 2601 – Foreign Currency Translation* and *PS 1201 – Financial Statement Presentation*. The primary change of PS 3450 is that changes in the fair value of derivative contracts would not be included in income on the statements of operations but would be included in a new statement of remeasurement gains and losses. Management is in the process of assessing the impact of adopting PS 3450 and whether to early adopt it for the fiscal year ending December 31, 2012 rather than December 31, 2013.

Note 3 – Significant Accounting Policies and Reporting Practices

As described in Note 2, these financial statements are prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

(b) Cash

Cash includes cash on hand, demand deposits and cash equivalents, which are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Short-term investments have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. ACFA's cash is on demand deposit with the Province of Alberta in the Consolidated Cash Investment Trust Fund (CCITF) whose investments include primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years. For the year ended December 31, 2011, deposits in CCITF had a time-weighted return of 1.26% per annum (December 31, 2010 – 0.84% per annum).

(c) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statements of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value.

Impairment losses are recognized in the statements of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

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

(d) Debt

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

Interest expense on debt is recorded on an accrual basis.

(e) Derivative Contracts

Derivative contracts for interest rate swaps are recorded at fair value on the statements of financial position and changes in fair value are recorded as unrealized gains and losses in the statements of operations. When a financial instrument is derecognized, a gain or loss is recognized in the statements of operations. Any transaction costs are expensed.

Fair value is the only relevant basis for measurement of derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur. Fair values are determined using models based on third party valuation software which takes into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statements of financial position.

Net interest paid or received on the pay fixed receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

(f) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, net discounts or premiums paid at debt redemption and interest paid are presented in the statements of cash flows as operating activities.

Note 4 – Loans to Local Authorities

	December 31, 2011	December 31, 2010	January 1, 2010
Amortized cost	$ 10,841,652	$ 9,524,751	$ 7,918,673

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

ACFA maintains a loan portfolio that consists of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for nearly 75% (December 31, 2010 – 80%; January 1, 2010 – 81%) of all loan assets held by ACFA. This borrower category is regulated by the *Municipal Government Act* that stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed lending agreement.

(b) Regional airport authorities account for 10% (December 31, 2010 – 10%; January 1, 2010 – 7%) of all loans assets held by ACFA. This borrower category utilizes Airport Improvement Fees (AIF) to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

(c) Educational and health authorities account for the remaining 15% (December 31, 2010 – 10%; January 1, 2010 – 12%) of loan assets, each with terms and conditions specific to their respective loan agreements.

As at and for the year ended December 31, 2011, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 11(b).

Note 5 – Debt

	December 31, 2011	December 31, 2010 (See Note 2)	January 1, 2010
Contractual principal	$ 10,798,646	$ 9,497,846	$ 7,899,846
Unamortized net discounts	(4,659)	(3,379)	(2,129)
Unamortized commission fees	(7,517)	(9,382)	(8,615)
Amortized cost	$ 10,786,470	$ 9,485,085	$ 7,889,102

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April, 2011 all ACFA debt is borrowed by the Province. The Province then on-lends the money to ACFA for loan disbursement and cash management.

Debt with contractual principal of $61,000 (December 31, 2010 – $166,000; January 1, 2010 – $165,000) is comprised of a combination of various issues of step-up 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 notes are redeemed at the first extendible date and all other debt at the maturity date, are as follows:

	Debt Redemption
2012	$ 2,686,000
2013	2,905,000
2014	671,500
2015	800,000
2016	1,500,000
	8,562,500
Thereafter	2,236,146
	$ 10,798,646

Note 6 – Derivative Financial Instruments

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, equity index price, foreign exchange rate or credit rating; it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and it is settled in the future.

To minimize its interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps are used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time.

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 statements of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal course of business to terminate swaps before maturity and realize gains or losses. Swaps are intended to be held to maturity to reduce interest risk.

Interest rate swaps with a notional value of $61,000 (December 31, 2010 – $166,000; January 1, 2010 – $165,000) related to the step-up notes have the option which allows the counterparty to extend or call the swap at predetermined extension or call dates. If the counterparty exercises their option to call or redeem the interest rate swap at the predetermined extension or call date, ACFA will in turn exercise its option to call or redeem the corresponding debt instrument and there will be no gain or loss to ACFA.

The notional amounts of interest rate swaps by maturity date are summarized as follows:

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Interest rate swaps, December 31, 2011	$ 88,173	$ 31,038	$ 1,803,057	$ 1,668,868	$ 8,294,577	$ 11,885,713
Interest rate swaps, December 31, 2010	$ 63,074	$ 105,430	$ 1,054,489	$ 2,161,883	$ 7,160,721	$ 10,545,597
Interest rate swaps, January 1, 2010	$ 80,435	$ 79,627	$ 513,461	$ 2,134,207	$ 6,022,923	$ 8,830,653

The notional amounts of the interest rate swaps related to the step-up notes have been included in the above table based on their maturity date.

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

			Current Replacement Cost	
	Notional Outstanding	Net Fair Value	Contracts in Favourable Position	Contracts in Unfavourable Position
Interest rate swaps, December 31, 2011	$ 11,885,713	$ (875,037)	$ 514,742	$ (1,389,779)
Interest rate swaps, December 31, 2010	$ 10,545,597	$ (160,485)	$ 316,145	$ (476,630)
Interest rate swaps, January 1, 2010	$ 8,830,653	$ (11,477)	$ 248,935	$ (260,412)

At December 31st, derivatives in a favourable and unfavourable position, as reported on the statements of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Accrued interest receivable on debt swaps	$ 5,447	$ 12,081	$ 16,078
Accrued interest payable on loan swaps	$ 41,076	$ 33,997	$ 37,710

The fair value of interest rate swaps has been calculated using valuation methodologies that take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. The determination of fair value also considers the impact of the counterparty's credit worthiness on the fair value of derivatives. As at the statements of financial position date, the estimated sensitivity of the fair value of derivatives in a favourable or unfavourable position to a change in the market rate of one (1) basis point is $2,212 and $9,120 respectively (December 31, 2010 – $1,191 and $5,504 respectively; January 1, 2010 – $541 and $3,078 respectively).

Current credit exposure is limited to the amount of loss that ACFA would suffer if every counterparty to which ACFA was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing (A+ or greater).

Under the Province of Alberta's master agreement with counterparties, ACFA can in the event of a counterparty default, net its favourable and unfavourable positions with a counterparty. In addition, under the agreement, one Credit Support Annex (CSA) has been signed with a counterparty which will require ACFA or the counterparty to provide collateral based on established thresholds which further enhance ACFA's credit position. The year ended December 31, 2011 marked the first year that the Province, and subsequently ACFA, was required to post collateral. During the year ended December 31, 2011, ACFA was required to post cash collateral on multiple occasions. The maximum amount of collateral outstanding at any given time was $9,100 (December 31, 2010 – Nil; January 1, 2010 – Nil). As of December 31, 2011, there were no amounts posted as collateral.

Derivative assets and liabilities are presented gross on the statements of financial position. Although the amounts do not qualify for offset, derivative instruments in a favourable position of $473,208 at December 31, 2011 (December 31, 2010 – $296,053; January 1, 2010 – $203,112) are subject to master netting arrangements which reduces ACFA's credit exposure by an equivalent amount.

Note 7 – Share Capital

Share capital is valued at $10 per share. Voting rights, as established in legislation, relate only to the election of a director representing the shareholders' class. Further particulars of share capital are as follows:

Class	Restricted to	Number of Shares: Authorized	Number of Shares: Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	895	8,950
C	Cities	750	588	5,880
D	Towns and villages	750	284	2,840
E	Educational authorities	500	83	830
December 31, 2011		7,500	6,350	$ 63,500
December 31, 2010		7,500	6,346	$ 63,460
January 1, 2010		7,500	6,345	$ 63,450

During the year five Class B (December 31, 2010 – seven Class B and three Class C) shares were issued and one Class D (December 31, 2010 – nine Class D) share was cancelled.

Financial Information

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. Both allow 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 is to safeguard its ability to continue as a going concern, to continue to benefit it shareholders by providing loans at the lowest possible cost and operate on a breakeven basis while maintaining positive equity. Net assets for capital management purposes is defined as accumulated surplus excluding cumulative changes in the fair value of derivatives. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes for the year end was $134,293 (December 31, 2010 – $100,076; January 1, 2010 – $65,357). Capital management objectives, policies and procedures are unchanged since the preceding year.

As almost all loans, debt and interest rate swaps are held to maturity or to the earliest call date and operate in accordance with the terms of the contract, no gains and losses are expected to be realized over the lives of these financial instruments. In its normal course of business, ACFA would not see these gains or losses realized. As such, ACFA's net assets for capital management purposes is comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Net Assets for Capital Management Purposes:			
Accumulated (deficit) surplus, end of year	$ (705,115)	$ (38,493)	$ 75,512
Less: Cumulative changes in fair value of derivatives in closing accumulated (deficit) surplus	(839,408)	(138,569)	10,155
Net assets for capital management purposes	$ 134,293	$ 100,076	$ 65,357

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

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

	2011		2010	
	Number of Individuals	Total	Number of Individuals	Total
Board/Audit Committee Chairs	2	$ 17	2	$ 11
Board/Audit Committee Members	6	$ 35	7	$ 28

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, 2011 is principal of $1,525 (December 31, 2010 – $5,294; January 1, 2010 – $10,511), upon which interest of $132 (2010 – $315) has been recorded in interest income from loans.

ACFA has no employees. Its operations are managed by dedicated staff of Alberta Finance. Included in administration and office expenses of $952 (2010 – $873) is the amount of $574 (2010 – $451) that was paid to the controlling shareholder, the Province of Alberta, for services at prices measured at the exchange amount, which approximate market.

Note 10 – Financial Risk Management

In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's equity. For most loans made after January 1, 2004, ACFA uses: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; debt interest rate swaps to swap fixed rate debt interest to floating; and forward rate agreements to minimize the exposure related to the mismatch of reset dates on 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 4 and ACFA does not believe that it has any credit exposure on loans.

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

(b) Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive debt. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The following table summarizes the contractual principal amounts of ACFA's interest sensitive assets and liabilities, with the assumption that the step-up 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 31st

Maturities		Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2011 Total	2010 Total
Assets:								
Cash		$ 40,027	$ -	$ -	$ -	$ -	$ 40,027	$ 30,881
Accrued interest receivable on loans to local authorities		104,924	-	-	-	-	104,924	97,436
Accrued interest receivable on debt swaps		5,447	-	-	-	-	5,447	12,081
Loans to local authorities		538,892	550,787	2,418,031	2,409,522	4,924,420	10,841,652	9,524,751
Effective rate		4.6%	4.6%	4.7%	4.7%	4.8%	4.7%	4.9%
Total		$ 689,290	$ 550,787	$ 2,418,031	$ 2,409,522	$ 4,924,420	$ 10,992,050	$ 9,665,149
Liabilities:								
Accrued interest payable on debt		$ 29,418	$ -	$ -	$ -	$ -	$ 29,418	$ 45,274
Accrued interest payable on loan swaps		41,076	-	-	-	-	41,076	33,997
Debt	(a)	6,741,000	300,000	1,521,500	1,022,367	1,213,779	10,798,646	9,497,846
Effective rate		3.8%	4.7%	5.0%	5.4%	5.5%	4.9%	5.0%
Total		$ 6,811,494	$ 300,000	$ 1,521,500	$ 1,022,367	$ 1,213,779	$ 10,869,140	$ 9,577,117

(a) Includes various floating rate notes in the aggregate amount of $5,055,000 (2010 – $3,899,200) with rates of Canadian Deposit Offered Rate plus predetermined spreads.

Interest rate swaps of pay fixed receive floating for loans and receive fixed pay floating for debt in the notional amounts of $9,094,434 and $2,791,279 respectively (2010 – $7,599,318 and $2,946,279 respectively) have not been included in the above table.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for both interest rate sensitive assets and liabilities at the statements of financial position date. Interest rate sensitive assets at December 31, 2011 consist of cash on deposit in CCITF, accrued interest receivable and loans which have been swapped from fixed to floating. Interest rate sensitive liabilities at December 31, 2011 consist of accrued interest payable and debt. Debt includes debt which has been swapped from fixed to floating, debt due within one year and floating rate debt.

The potential impact of an immediate and sustained increase of 50 basis points in interest rates with all other variables held constant throughout the year would have the following impact on interest income and interest expense from interest rate sensitive assets and liabilities respectively:

					2011					2010
Assets	$ 9,291,607	times	0.5%	=	$ 46,458	$ 7,771,347	times	0.5%	=	$ 38,857
Liabilities	$ 9,042,506	times	0.5%	=	$ 45,213	$ 7,555,405	times	0.5%	=	$ 37,777
Net interest income					$ 1,245					$ 1,080

(c) Liquidity Risk

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

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, ACFA manages this by raising funds, when required, in the Canadian market. Access to this market is enhanced as ACFA is an agent of, and its debt is unconditionally guaranteed by, the Province of Alberta.

The maturities of ACFA's contractual cash flows from financial liabilities at December 31, 2011 are as follows:

		2012	2013	2014	2015 and beyond
Liabilities:					
Accounts payable		$ 733	$ -	$ -	$ -
Debt, contractual repayments of principal	(a)	2,640,000	2,905,000	656,500	4,597,146
Debt, contractual payments of interest	(b)	281,393	182,578	167,129	997,214
Derivatives in unfavourable position, net	(b)	237,678	232,268	221,545	2,082,036
Commitments		177,945	27	-	-
Total		$ 3,337,749	$ 3,319,873	$ 1,045,174	$ 7,676,396

(a) Cash flows for debt contractual repayment of principal are determined with the assumption that the step-up notes will not be redeemed until maturity.

(b) Where the amount of interest payable is not fixed, as is the case for issued debt that has a variable interest rate or the floating leg of an interest rate swap, the amounts included in the above table have been determined by reference to the conditions existing at the date of the statements of financial position.

Interest and principal payments as well as other payments for derivative financial instruments are relevant for the presentation of the maturities of the cash flow. Future cash flows are not discounted.

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined that the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk:

		2012	2013	2014	2015 and beyond
Assets:					
Loans, contractual collection of principal	(a)	$ 538,892	$ 550,787	$ 761,310	$ 8,990,663
Loans, contractual collection of interest	(a)	489,504	461,838	434,763	3,673,152
Derivatives in favourable position, net	(a)	85,557	86,057	86,215	538,274
Total		$ 1,113,953	$ 1,098,682	$ 1,282,288	$ 13,202,089

(a) The amounts presented represent the contractual collection of principal and interest and assumes no prepayments or no credit default on behalf of the counterparties or the local authorities.

Note 11 – Commitments

(a) Lease

ACFA has obligations under an operating lease for the rental of premises, expiring in July 2013, at an annual minimum of $54 for 2012 and $27 for 2013.

(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 31st were:

	December 31, 2011	December 31, 2010	January 1, 2010
Loan commitments	$ 177,891	$ 222,000	$ 27,025

Note 12 – Budget

The 2011 budget was approved by the Board of Directors on December 9, 2010. Budget amounts for 2011 were prepared on an amortized cost basis, except that commission fees were expensed. Fair value changes were not budgeted.

Note 13 – Approval of Financial Statements

The financial statements were approved by the Board of Directors on March 8, 2012.

Financial Information

Schedule 1 – Debt

as at December 31, 2011

(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	
Canada Pension Plan Investment Fund/CPP Investment Board:				
Oct 01, 2020		6.2800	$ 222,367	(c) Fixed
Jun 01, 2022		6.0600	100,000	(c) Fixed
Apr 05, 2023		5.8900	50,000	(c) Fixed
Dec 01, 2023		5.5000	150,000	(c) Fixed
Dec 03, 2024		5.1800	78,000	(c) Fixed
Nov 03, 2026		4.4900	200,000	(c) Fixed
Nov 03, 2031		4.5000	125,396	(c) Fixed
Nov 02, 2032		4.8300	190,383	(c) Fixed
Total			1,116,146	
Public:				
Jan 09, 2012		0.9400	70,000	(d) Short-term
Jan 18, 2012		0.9400	120,000	(d) Short-term
Feb 07, 2012		0.9600	105,000	(d) Short-term
Feb 13, 2012		0.9500	65,000	(d) Short-term
Mar 15, 2012		0.9300	100,000	(d) Short-term
Mar 06, 2012		0.9300	200,000	(d) Short-term
Mar 07, 2012		0.9300	210,000	(d) Short-term
Mar 15, 2012		0.9278	270,000	(d) Short-term
Jun 01, 2012		5.8500	500,000	(c) Fixed
Jun 15, 2012		1.6007	550,000	(b) Floating
Oct 09, 2012		1.3507	450,000	(b) Floating
Feb 05, 2013		1.3507	625,000	(b) Floating
Apr 26, 2013		1.3507	500,000	(b) Floating
Oct 01, 2013		1.3907	520,000	(b) Floating
Dec 02, 2013		5.0000	300,000	(c) Fixed
Dec 15, 2013		1.2807	960,000	(b) Floating
Jul 02, 2014		3.0940	106,500	(c) Fixed
Jul 02, 2014		1.6707	550,000	(b) Floating
Mar 23, 2015	Mar 23, 2012 *	2.1000	26,000	(a) Step-up
Jun 01, 2015		4.9000	200,000	(c) Fixed
Jun 15, 2015		3.0500	600,000	(c) Fixed
Dec 21, 2015	Dec 21, 2012	2.0000	10,000	(a) Step-up
Mar 24, 2016	Mar 24, 2012 *	2.0500	10,000	(a) Step-up
May 27, 2016		1.3907	900,000	(b) Floating
Jun 15, 2016		4.3500	600,000	(c) Fixed

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	
Jun 15, 2017		4.6500	700,000	(c) Fixed
Jun 01, 2018		5.1500	100,000	(c) Fixed
Apr 28, 2023	Apr 28, 2014	3.0000	15,000	(a) Step-up
Dec 01, 2023		5.1000	20,000	(c) Fixed
Dec 15, 2025		4.4500	300,000	(c) Fixed
Total			9,682,500	
Total contractual principal outstanding			10,798,646	
Less unamortized commission fees and net discounts			12,176	
Total debt December 31, 2011			$ 10,786,470	
Total debt December 31, 2010, including unamortized commission fees and net discounts			$ 9,485,085	
Total debt January 1, 2010, including unamortized commission fees and net discounts			$ 7,889,102	

(a) These are step-up notes extendible at ACFA's option which pay interest periodically at a predetermined rate with principal paid on termination.

(b) These are floating rate notes which pay interest quarterly at the Canadian Deposit Offered Rate (CDOR) plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the statements of financial position date plus the contractual predetermined spread.

(c) Fixed rate debt.

(d) Short-term notes.

(*) Subsequent to year end, these extendible step-up notes and related derivatives were called on the first extendible date at the contractual principal amounts.

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ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2011

April 19, 2012

Independent Auditor's Report

To the Members of
Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statement of financial position as at December 31, 2011 and 2010 and the statements of operations, changes in net assets and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Other matter

Without modifying our opinion, we draw attention to note 11 to the financial statements, which describes the restatement of prior year financial statements resulting from adjustments to deferred revenue and accrued vacation payable.

PricewaterhouseCoopers LLP

Chartered Accountants

Statements of Financial Position

As at December 31, 2011 and 2010

	2011 $	2010 $ (Restated – Note 11)
Assets		
Current assets		
Cash (note 3)	5,618,188	5,937,146
Accounts receivable (note 5)	67,471	28,938
Prepaid expenses	110,689	67,407
	5,796,348	6,033,491
Capital assets (note 4)	1,290,894	1,177,626
	7,087,242	7,211,117
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	310,697	401,072
Deferred license and assessment fee revenue	1,485,938	1,390,928
	1,796,635	1,792,000
Deferred rent and tenant inducements (note 5)	631,960	547,938
	2,428,595	2,339,938
Commitments (note 9)		
Net Assets		
Net assets		
Invested in capital assets (internally restricted)	658,934	629,688
Unrestricted	3,999,713	4,241,491
	4,658,647	4,871,179
	7,087,242	7,211,117

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

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

Original signed by

Art Bonertz
Chair, Audit Committee

Original signed by

Mel Niebrugge
Chair, Alberta Insurance Council

Statements of Changes in Net Assets

For the years ended December 31, 2011 and 2010

	capital assets $	Unrestricted $	Total $
Balance – December 31, 2009, as restated (note 11)	512,390	4,302,004	4,814,394
Excess of revenue over expenditures, as restated	-	56,785	56,785
Amortization of capital assets	(225,621)	225,621	-
Amortization of deferred tenant inducement	50,559	(50,559)	-
Deferred rent adjustment	(18,748)	18,748	-
Loss on disposal of capital assets	(20,367)	20,367	-
	(214,177)	270,962	56,785
Investment in property and equipment			
Purchase of capital assets	789,475	(789,475)	-
Tenant inducement received	(458,000)	458,000	-
	331,475	(331,475)	-
Balance – December 31, 2010, as restated (note 11)	629,688	4,241,491	4,871,179
Excess of revenue over expenditures	-	(212,532)	(212,532)
Amortization of capital assets	(288,886)	288,886	-
Amortization of deferred tenant inducement	61,472	(61,472)	-
Deferred rent adjustment	(79,396)	79,396	-
Loss on disposal of capital assets	(1,265)	1,265	-
	(308,075)	95,543	(212,532)
Investment in property and equipment			
Purchase of capital assets	403,421	(403,421)	-
Tenant inducement received	(66,100)	66,100	-
	337,321	(337,321)	-
Balance – December 31, 2011	658,934	3,999,713	4,658,647

	2011 $	2010 $
Invested in capital assets consists of		
Capital assets	1,290,894	1,177,626
Deferred rent and tenant inducements	(631,960)	(547,938)
	658,934	629,688

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

Statements of Operations

For the years ended December 31, 2011 and 2010

	Budget 2011 $ (Unaudited)	2011 $	2010 $ (Restated – Note 11)
Revenue			
License, assessment, examination and continuing education fees	4,335,000	4,567,614	4,437,924
Interest and other	60,000	76,544	58,023
	4,395,000	4,644,158	4,495,947
Expenditures			
Salaries and benefits (note 6)	2,965,000	2,651,178	2,574,561
Occupancy and premises	656,000	646,052	514,237
Councils, Boards and Committees (note 7)	325,000	307,450	286,058
Amortization of capital assets	265,000	290,151	245,373
Office and administration	229,000	249,073	222,622
Professional fees	210,000	203,582	197,253
Communications	199,000	190,386	175,808
Software and computer	190,000	209,711	127,987
Travel	110,000	109,107	95,263
Total expenditures for the year	5,149,000	4,856,690	4,439,162
Revenue (less) greater than expenditures	(754,000)	(212,532)	56,785

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

Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	2011 $	2010 $ (Restated – Note 11)
Cash provided by (used in)		
Operating activities		
Revenue (less) greater than expenditures	(212,532)	56,785
Items not affecting cash		
Amortization of capital assets	288,886	225,621
Amortization of deferred tenant inducement	(61,472)	(50,559)
Deferred rent adjustment	79,396	18,748
Loss on disposal of capital assets	1,265	20,367
	95,543	270,962
Net changes in non-cash working capital items		
(Increase) decrease in accounts receivable	(38,533)	4,950
Increase in prepaid expenses	(43,282)	(7,261)
(Decrease) increase in accounts payable and accrued liabilities	(90,375)	40,532
Increase (decrease) in deferred license and assessment fee revenue	95,010	(37,852)
	18,363	271,331
Investing activities		
Purchase of capital assets	(403,421)	(789,475)
Receipt of tenant inducements	66,100	458,000
	(337,321)	(331,475)
Decrease in cash	(318,958)	(60,144)
Cash – Beginning of year	5,937,146	5,997,290
Cash – End of year	5,618,188	5,937,146
Supplementary information		
Interest received	74,701	54,754

During the year, the Council received a non-cash tenant inducement of $24,087 (2010 – $458,000) and was entitled to a tenant inducement of $42,013 (2010 – $nil), which is included in accounts receivable at December 31, 2011 (note 5).

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

Financial Information

Notes to Financial Statements

December 31, 2011 and 2010

1 Authority and purpose

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

2 Summary of significant accounting policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue recognition

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

Capital assets and amortization

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

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

Examination development costs

Costs of development of examination questions are expensed as incurred.

Deferred tenant inducement and operating leases

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

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent inducement comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

Contributed services

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

Financial instruments

The Council's financial assets include cash and accounts receivable. Cash is classified as held-for-trading and is recorded at fair value with realized and unrealized gains and losses reported in the statement of operations for the period in which they arise. Accounts receivable is classified as loans and receivables and is accounted for at amortized cost using the effective interest rate method. Loans and receivables are initially recorded at fair value.

The Council's financial liabilities include accounts payable and accrued liabilities. Financial liabilities are classified as other liabilities and are accounted for at amortized cost using the effective interest rate method. Financial liabilities are initially measured at fair value.

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

The Council applies Canadian Institute of Chartered Accountants ("CICA") Section 3861 – *Financial Instruments Disclosure and Presentation* in place of the optional standards CICA 3862 – *Financial Instruments – Disclosures* and ICA 3863 – *Financial Instruments – Presentation*, effective for financial years beginning on or after October 31, 2007.

Future change in basis of accounting

Accounting standards for not-for-profit organizations

In December 2010, the Canadian Accounting Standards Board issued a comprehensive set of accounting standards applicable to not-for-profit organizations and changes for government not-for-profit organizations ("GNPOs"). The standards are effective for fiscal years beginning on or after January 1, 2012 and require retrospective application, except for certain exemptions and exceptions contained within the standards. Early adoption of the standards is permitted. The Government of Alberta has provided direction to the Council to adopt the accounting standards applicable for GNPOs effective January 1, 2012 and the Council is currently considering the impact upon adopting these standards.

3 Cash

Included in cash is an amount of $4,959,425 (2010 – $5,607,191) invested in the Consolidated Cash Investment Trust Fund (the "CCITF"). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital.

4 Capital assets

			2011
	Cost $	Accumulated amortization $	Net $
Leasehold improvements	962,939	303,589	659,350
Furniture and office equipment	442,502	165,687	276,815
Computer equipment	393,679	246,199	147,480
Computer software	962,461	760,042	202,419
Telephone equipment	51,590	48,948	2,642
Asset held for resale	2,188	-	2,188
	2,815,359	1,524,465	1,290,894

			2010
	Cost $	Accumulated amortization $	Net $
Leasehold improvements	884,800	208,728	676,072
Furniture and office equipment	396,895	127,543	269,352
Computer equipment	289,255	201,069	88,186
Computer software	794,188	664,499	129,689
Telephone equipment	51,277	39,138	12,139
Asset held for resale	2,188	-	2,188
	2,418,603	1,240,977	1,177,626

The asset held for resale is valued at the estimated net recoverable amount.

5 Deferred rent and tenant inducements

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

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

At the time of the Edmonton move, the Council was in year 4 of a 5-year lease. The lease for the premises in TD Tower was amended to provide for early termination of the lease effective December 3, 2010. In 2007, a tenant inducement of $84,043 had been received from the landlord with respect to leasehold improvements undertaken by the Council on the space in TD Tower. This tenant inducement was deferred and was being recognized as a reduction of rent expense over the 5-year term of the lease. In 2010, the remaining portion of this leasehold inducement in the amount of $15,669 was recognized as a reduction of 2010's rent.

In 2010, a tenant inducement in the amount of $524,100 was provided for by Oxford Properties Group with respect to the leasehold improvements for the new Edmonton premises. $458,000 of improvements had been completed as at December 31, 2010, $24,087 of improvements were completed in 2011, and the AIC will receive a tenant inducement of $42,013 from Oxford Properties Group for the remaining amount. These amounts have been deferred, and are being amortized as a reduction of rent during the 10-year term of the lease. At December 31, 2011 the $42,013 cash inducement had not yet been received, and is included in accounts receivable.

Deferred rent and tenant inducements consist of the following:

	2011 $	2010 $
Deferred rent	98,144	18,748
Deferred tenant inducement	533,816	529,190
	631,960	547,938

6 Salaries and benefits

	2011				2010	
	FTE's #	Salary[(a)] $	Benefits[(b)] $	Total $	FTE's #	Total $ (Restated – Note 11)
Chief Executive Officer	1	232,825	40,201	273,026	1	279,501
Chief Operating Officer	1	213,624	47,937	261,561	1	243,440
Other staff	21.5	1,816,913	299,678	2,116,591	19	2,051,620
Total	23.5	2,263,362	387,816	2,651,178	21	2,574,561

(a) Salary includes regular base pay, bonuses and overtime.

(b) Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay. Accrued vacation pay was $220,418 (2010 – $205,568).

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.

7 Councils, Boards and Committees

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

	2011 $	2010 $
Councils and Council Committees	250,259	212,545
Appeal Boards	16,113	37,161
Accreditation Committee	41,078	36,352
	307,450	286,058

b) Per diem payments of Council Members

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

	2011(c)		2010(c)	
	#	$	#	$
Councils(a)				
Chair – AIC(b)	1	23,950	1	23,149
Other – Chairs	10	46,668	8	63,513
Members	33	133,093	33	104,556
Total	44	203,711	42	191,218

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Accreditation Committee.

(b) This includes per diem payments made for attendance at Alberta Insurance Council, Audit Committee, Accreditation Committee and the AIC chair annual stipend.

(c) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from Insurance licenses. This includes public members appointed by the Lieutenant Governor in Council, as well as Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act. For the period January 1 to December 31, 2010, the public member positions for the General Insurance Council and the Insurance Adjusters Council were vacant.

8 Capital disclosures

The Council's objective in managing capital is to ensure a sufficient liquidity position to finance its expenses, working capital and overall capital expenditures.

The Council defines capital as net assets comprised of investment in property and equipment and unrestricted funds.

Since inception, the Council has primarily financed its liquidity through fees from licenses, assessments, examinations and continuing education and interest income on cash invested in the Consolidated Cash Investment Trust Fund. The Council expects to continue to meet future requirements through these sources.

The Council is not subject to any externally imposed capital requirements. There have been no changes to the Council's objectives and what it manages as capital since the prior fiscal period.

9 Commitments

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

	$
2012	369,969
2013	378,493
2014	352,735
2015	227,110
2016	241,668
Thereafter	1,019,083

10 Financial instruments

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

11 Restatement of accrued vacation pay and deferred license revenue

In conjunction with review of the reporting requirements under GNPOs, the AIC conducted a preliminary review of accounting and information reporting practices, and changes were implemented in two areas: the calculation of the liability for employee vacation pay, and the deferral of license fees collected but not yet processed (unprocessed fees).

The method of accounting for the accrued vacation payable was changed to reflect the most current estimated liability as at December 31. Changes to our reporting systems allowed for more accurate identification and classification of processed and unprocessed license fees. The result of this review was to reduce amounts previously deferred and increase license fees recognized as income.

These changes were applied retrospectively with restatement of prior periods. The net impact of these changes is summarized in the following table.

	Originally reported $	Adjustment increase (decrease) $	Restated $
Statement of financial position as at December 31, 2009			
Net assets	4,926,818	(112,424)	4,814,394
Statement of financial position as at December 31, 2010			
Accounts receivable	34,319	(5,381)	28,938
Accounts payable and accrued liabilities	229,142	171,930	401,072
Deferred license and assessment fee revenue	1,473,223	(82,295)	1,390,928
Unrestricted net assets	4,336,507	(95,016)	4,241,491
Net assets	4,966,195	(95,016)	4,871,179
Statement of operations for the year ended December 31, 2010			
Revenue	4,383,355	54,569	4,437,924
Salaries and benefits	2,537,400	37,161	2,574,561
Revenue greater than expenditures	39,377	17,408	56,785
Statement of cash flows			
Revenue greater than expenditures	39,377	17,408	56,785
Net changes in non-cash working capital items:			
(Increase) decrease in accounts receivable	(431)	5,381	4,950
Increase in accounts payable and accrued liabilities	8,750	31,782	40,532
Increase (decrease) in deferred license and assessment fee revenue	16,719	(54,571)	(37,852)
Note 6 – Salaries and benefits			
Chief Executive Officer – benefits	52,630	5,133	57,763
Chief Executive Officer – total	274,368	5,133	279,501
Chief Operating Officer – benefits	44,435	6,666	51,101
Chief Operating Officer – total	236,774	6,666	243,440
Other Staff – benefits	276,454	25,362	301,816
Other Staff – total	2,026,258	25,362	2,051,620
Total – benefits	373,519	37,161	410,680
Total salaries and benefits	2,537,400	37,161	2,574,561
Accrued vacation pay	28,257	177,311	205,568

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ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2012

Independent Auditor's Report

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Investment Management Corporation, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the statements of operations and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Investment Management Corporation as at March 31, 2012, March 31, 2011 and April 1, 2010, and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 25, 2012

Edmonton, Alberta

Statements of Financial Position

As at (*$ thousands*)	**March 31, 2012**	**March 31, 2011**	**April 1, 2010** (Note 3)
Assets			
Cash and cash equivalents (Note 5)	$ 18,322	$ 19,607	$ 26,427
Accounts receivable	13,777	11,808	9,780
Prepaid expenses	2,958	2,261	1,729
Tangible capital assets (Note 6)	44,144	32,345	26,748
Other assets	2,416	2,416	2,416
	81,617	68,437	67,100
Liabilities			
Accounts payable and accrued liabilities	4,978	3,902	11,831
Accrued employment liabilities (Note 7)	36,639	23,942	14,124
Advance from the Province of Alberta (Note 8)	28,249	28,249	28,249
Pension liabilities (Note 9)	2,770	2,647	2,483
Deferred lease inducement (Note 16)	5,334	6,050	6,766
	77,970	64,790	63,453
Net assets (Note 10)	$ 3,647	$ 3,647	$ 3,647

Contractual Obligations (Note 16)

The accompanying notes are part of these financial statements.

Approved by the Board:

[original signed by]

A. Charles Baillie

Original signed by:

[original signed by]

Cathy Williams

Original signed by:

Statements of Operations

For the years ended March 31, (*$ thousands*)	2012 Budget (unaudited) (Note 17)	2012 Actual	2011 Actual (Note 3)
Revenue			
Cost recoveries	$ 240,111	$ 322,688	$ 247,835
Interest income	-	205	253
Total revenue	240,111	322,893	248,088
Expenses			
External investment management fees (Note 11)	116,544	109,717	116,726
External performance fees (Note 11)	-	30,989	19,096
External asset administration, legal, and other (Note 11)	25,263	88,808	35,333
Salaries, wages and benefits	54,332	59,090	47,840
Administrative expenses	7,882	9,955	7,595
Contract and professional services	20,808	9,015	7,576
Data services and subscriptions	6,630	7,286	7,277
Amortization of tangible capital assets	3,582	4,144	3,252
Rent	4,578	3,556	3,140
Interest	492	333	253
Total expenses	240,111	322,893	248,088
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statements of Cash Flows

For the years ended March 31, (*$ thousands*)	**2012**	**2011**
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets	4,144	3,252
Amortization of deferred lease inducement	(716)	(716)
Change in other assets	-	(2,416)
Change in pension liabilities	123	164
	3,551	284
Changes in operating accounts (Note 12)	11,107	1,745
	14,658	2,029
Capital transactions		
Acquisition of tangible capital assets	(15,943)	(8,849)
Decrease in cash and cash equivalents	(1,285)	(6,820)
Cash and cash equivalents at beginning of year	19,607	26,427
Cash and cash equivalents at end of year	$ 18,322	$ 19,607

The accompanying notes are part of these financial statements.

Financial Information

Financial Information

Notes to the Financial Statements

For the years ended March 31, 2012 and 2011

($ thousands)

NOTE 1 AUTHORITY

Alberta Investment Management Corporation ("the Corporation") is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a board of directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from federal and provincial income taxes.

NOTE 2 NATURE OF OPERATIONS

The purpose of the Corporation is to provide investment management services in accordance with the *Alberta Investment Management Corporations Act* primarily to the Province of Alberta and certain public sector pension plans. The Corporation forms part of the Ministry of Finance and Enterprise for which the Minister of Finance and Enterprise is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of $69.7 billion (2011 - $68.8 billion), see Note 13. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost recovery basis. The Corporation's board of directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 CONVERSION TO PUBLIC SECTOR ACCOUNTING STANDARDS

Commencing with the 2011/2012 fiscal year, the Corporation has adopted Canadian public sector accounting Standards ("PSAS"). These financial statements are the first financial statements for which the Corporation has applied PSAS. The conversion to PSAS had no impact on the accumulated surplus at the date on transition or on the 2011 statement of operations.

Statement of Financial Position

as at April 1, 2010 ($ thousands)

	Previously Stated	Adjustment	Restated
Assets			
Cash and cash equivalents	$ 26,427	$ -	$ 26,427
Accounts receivable	9,780	-	9,780
Prepaid expenses	1,729	-	1,729
Tangible capital assets	26,748	-	26,748
Other assets	2,416	-	2,416
	67,100	-	67,100
Liabilities			
Accounts payable and accrued liabilities	11,831	-	11,831
Accrued employment benefits	14,124	-	14,124
Advance from the Province of Alberta	28,249	-	28,249
Pension liabilities	2,483	-	2,483
Deferred lease inducement	6,766	-	6,766
	63,453	-	63,453
Net assets	$ 3,647	$ -	$ 3,647

NOTE 3 CONVERSION TO PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

Statement of Operations

for the year ended March 31, 2011 ($ thousands)

	Previously Stated	Adjustment	Restated
Revenue			
Cost recoveries	$ 247,835	$ -	$ 247,835
Interest income	253	-	253
Total revenue	248,088	-	248,088
Expenses			
External investment management fees	116,726	-	116,726
External performance fees	19,096	-	19,096
Asset administration, legal, and other	35,333	-	35,333
Salaries, wages and benefits	47,840	-	47,840
Administrative expenses	7,595	-	7,595
Contract and professional services	7,576	-	7,576
Data services and subscriptions	7,277	-	7,277
Amortization of tangible capital assets	3,252	-	3,252
Rent	3,140	-	3,140
Interest	253	-	253
Total expenses	$ 248,088	$ -	$ 248,088

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with PSAS and include the following significant accounting policies:

a) Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. External investment management fees which are recorded as $109,717 (2011 - $116,726), external performance fees which are recorded as $30,989 (2011 - $19,096), and pension liabilities which are recorded as $2,770 (2011 - $2,647) in these financial statements, are subject to measurement uncertainty. External investment costs include estimates of management and performance fees that are based upon specified rates and commitment levels in the investment management agreements. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 9 for a description of the key assumptions and how a change in the assumptions can impact the reported pension liability.

Estimates and assumptions are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

b) Revenue Recognition

All revenues are reported on the accrual basis of accounting.

Cost recovery revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments, and on the recovery of indirect costs representing each government fund, pension plan and pooled fund's respective share of the Corporation's operating costs. The indirect charges are allocated based on assets under management and transaction volume. Cost recovery revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

Under the *Alberta Investment Management Corporations Act*, the Corporation may establish and maintain one or more Reserve Funds with the ability to recover charges in excess of direct costs.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

d) Assets

Financial assets which include cash and cash equivalents and accounts receivable are assets that could be used to discharge existing liabilities or finance future operations.

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

Prepaid expenses are charged to expense over the periods expected to benefit from it.

e) Liabilities

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

f) Valuation of Financial Assets and Liabilities

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

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and accrued employment benefits are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair value of the advance from the Province of Alberta is not reported due to there being no organized financial market for the instrument and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

g) Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Computer systems hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation. Amortization is calculated on a straight-line basis over the following periods:

Computer systems hardware and software	5 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

Computer systems hardware and software development costs are not amortized until the items are available for use.

h) Write-down of Tangible Capital Assets

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

Financial Information

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Net Assets

Net assets represent the difference between the carrying value of assets held by the Corporation and its liabilities.

PSAS require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

j) Employment Benefits

The Corporation participates in multi-employer defined benefit plans that meet the accounting requirements for treatment as defined contribution plans. The Corporation also participates in defined contribution pension plans. Employer contributions are expensed as incurred.

On January 1, 2010, the Corporation established a new SRP for those individuals required to withdraw from the existing Supplementary Retirement Plan for Public Service Managers. This pension plan is accounted for using the projected-benefits method pro-rated on service to account for the cost of the defined benefit pension plan. Pension costs are based on management’s best estimate of expected plan investment performance, discount rate, salary escalation, and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on rates of return of assets currently held by the Plan. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the average remaining service life of active employees. Transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

The Corporation provides retention incentives to employees through a Long-Term Incentive Plan (“LTIP”) and a Restricted Fund Unit Plan (“RFU”). The value of these awards, which fluctuates over the vesting period based on achievement of certain performance factors, is expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the awards is remeasured at each reporting period based on changes in the intrinsic values of the awards, such that the cumulative amount of the liability will equal the expected payout at that date. Any gains or losses on remeasurement are recorded in the statement of operations. For any forfeiture of the awards, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

k) Foreign Currency

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

NOTE 5 CASH AND CASH EQUIVALENTS

as at March 31, ($ thousands)	2012	2011
Deposit in Consolidated Cash Investment Trust Fund	$ 18,172	$ 19,558
Cash in U.S. bank account	150	49
	$ 18,322	$ 19,607

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, 2012, securities held by the Fund have a time-weighted return of 1.2% per annum (2011 – 1.1% per annum).

NOTE 6 TANGIBLE CAPITAL ASSETS

for the year ended March 31, 2012 ($ thousands)

	Computer systems hardware and software	Computer systems hardware and software under development	Leasehold improvements	Furniture and equipment	**2012**
Cost					
Opening Balance	$ 18,750	$ 10,017	$ 11,995	$ 4,132	$ 44,894
Additions	1,264	14,199	165	315	15,943
Disposals	-	-	-	-	-
Transfers	280	(250)	(30)	-	-
Write-downs	-	-	-	-	-
Closing Balance	20,294	23,966	12,130	4,447	60,837
Accumulated Amortization					
Opening Balance	10,851	-	1,268	430	12,549
Amortization expense	2,487	-	1,231	426	4,144
Disposals	-	-	-	-	-
Write-downs	-	-	-	-	-
Closing Balance	13,338	-	2,499	856	16,693
Net Book Value at March 31, 2012	$ 6,956	$ 23,966	$ 9,631	$ 3,591	$ 44,144

for the year ended March 31, 2011 ($ thousands)

	Computer systems hardware and software	Computer systems hardware and software under development	Leasehold improvements	Furniture and equipment	**2011**
Cost					
Opening Balance	$ 12,953	$ 8,316	$ 11,004	$ 3,772	$ 36,045
Additions	3,075	4,423	991	360	8,849
Disposals	-	-	-	-	-
Transfers	2,722	(2,722)	-	-	-
Write-downs	-	-	-	-	-
Closing Balance	18,750	10,017	11,995	4,132	44,894
Accumulated Amortization					
Opening Balance	9,165	-	99	33	9,297
Additions	1,686	-	1,169	397	3,252
Disposals	-	-	-	-	-
Write-downs	-	-	-	-	-
Closing Balance	10,851	-	1,268	430	12,549
Net Book Value at March 31, 2011	$ 7,899	$ 10,017	$ 10,727	$ 3,702	$ 32,345

Included in tangible capital assets is computer systems hardware and software of $23,966 (2011 - $10,017) that is under development and not subject to amortization.

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, ($ thousands)	2012	2011
Annual incentive plan (a)	$ 17,532	$ 14,781
Long-term incentive plan (b)	15,764	6,745
Restricted fund unit incentive plan (c)	614	481
Accrued vacation salaries and benefits	2,729	1,935
	$ 36,639	$ 23,942

(a) Annual Incentive Plan

Variable pay per the Corporation's Annual Incentive Plan is accrued based on goal attainment for the calendar year and paid in the subsequent year. Payments are tied to asset class and total fund value-added and include a component for achievement of annual individual objectives. The Chief Executive Officer may also make discretionary awards.

(b) Long-Term Incentive Plan

The Corporation provides retention incentives to employees through an LTIP and an RFU plan. The LTIP program promises a deferred reward for generating superior average net incremental return from active management ("value-added") over a four-year period. Senior management and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance. The first of these grants, issued effective January 1, 2009, will vest on December 31, 2012 with grants being issued annually thereafter. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they mature after four years, they will pay between zero and three times the size of the grant. The maximum amount will be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. For each of 2009 through 2011, the stretch target is $500,000. For 2012, the stretch target is $600,000.

If the average four-year value-added exceeds the average "stretch target" annually set by the Board, employees have the potential to receive a Special LTIP Grant at the vesting date. This Special LTIP Grant, which cannot exceed the original grant, has a new four-year vesting period and is subject to the same parameters as regular LTIP grants. Strong performance in certain asset classes since the first grants were awarded have resulted in the potential for Special LTIP Grants. However, since future performance for the remainder of the vesting period will determine whether the Special LTIP Grants will be awarded, no amount has been accrued in these financial statements.

The accrued LTIP liability as at March 31, 2012 of $15,764 (2011 - $6,745) reflects the potential value of all LTIP, based on actual results to that date from the date they were awarded.

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

for the years ended March 31, (thousands)	2012	2011
LTIP grants outstanding, beginning of year	14,475	9,460
Granted	6,975	5,635
Redeemed / forfeited	(539)	(620)
LTIP grants oustanding, end of year	20,911	14,475

The maximum potential obligation related to the LTIP as at March 31, 2012 was $62,733 (2011 - $43,425). Total expense related to the LTIP for the year ended March 31, 2012 was $8,990 (2011 - $4,740) which was recorded in salaries, wages and benefits.

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

(c) Restricted Fund Unit Incentive Plan

The RFU program is a supplementary compensation plan based on a notional investment in the total assets under administration, where the value fluctuates based on the total rate of return. Unlike the LTIP grants, rates of return relative to benchmark do not impact the value of the RFU(s). RFU(s) have time horizons of one-to-three years for vesting provisions. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments.

The accrued RFU liability as at March 31, 2012 of $614 (2011 - $481) reflects the potential value of all RFU, based on actual results to that date from the date they were awarded.

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

for the years ended March 31, (thousands)	2012	2011
RFU grants outstanding, beginning of year	505	630
Granted	1,200	15
Redeemed / forfeited	(155)	(140)
RFU grants oustanding, end of year	1,550	505

Total expense related to the RFU plan for the year ended March 31, 2012 was $314 (2011 - $231) which was recorded in salaries, wages and benefits.

NOTE 8 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 542/2007 and in accordance with a loan advance agreement, the Corporation received advances on both January 1, 2008 and April 1, 2008 from the Province of Alberta to fund operating and capital cost requirements. As at March 31, 2012, the outstanding advance totaled $ 28,249 (2011 - $28,249).

The advance is a revolving demand credit facility up to a maximum of $30,000. The advance is repayable within six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate. At March 31, 2012, the Corporation was in compliance with the terms of its revolving demand facility.

The Corporation has requested an increase to its existing loan advance agreement to a maximum of $70 million to provide additional funds necessary to complete existing projects under development. This amendment will require an Order in Council which has not yet been received.

NOTE 9 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

for the years ended March 31, ($ thousands)	2012	2011
Accrued retirement obligation		
Beginning of year	$ 1,629	$ 2,483
Current service cost	399	389
Interest cost	91	129
Actuarial loss (gain)	156	(1,372)
End of year	2,275	1,629
Plan assets		
Fair value, beginning of year	354	-
Actual return on plan assets	11	-
Employer contributions	107	177
Employee contributions	107	177
End of year	579	354
Funded status - plan deficit	(1,696)	(1,275)
Unamortized net actuarial gain	(1,074)	(1,372)
Reported liability	$ (2,770)	$ (2,647)
Current service cost	400	389
Interest cost	91	129
Expected return on plan assets	(28)	-
Net acturial gain amortization	(125)	-
Less: employee contributions	(107)	(177)
Total SRP expense	$ 231	$ 341

The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. The next required actuarial valuation for funding purposes will be March 31, 2013.

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

as at March 31,	2012	2011
Equity securities	55%	0%
Debt securities	44%	0%
Other	1%	100%

NOTE 9 PENSION LIABILITIES (continued)

The following table presents key assumptions applicable to the SRP:

as at March 31,	2012	2011
Annual discount rate	4.2%	4.5%
Annual salary increase - base	3.0%	3.0%
Expected long-term return on plan assets	5.6%	6.0%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% increase or decrease in the discount rate would decrease or increase the reported liability by $602 as at March 31, 2012 (2011 - $449). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $1,613 as at March 31, 2012 (2011 - $1,214). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $172 as at March 31, 2012 (2011 - $127).

Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan, and two multi-employer Long-Term Disability Income Continuance plans. The Corporation also participates in a defined contribution pension plan and a defined contribution supplementary retirement plan, established for employees hired after the formation of the Corporation on January 1, 2008.

The Corporation's expense for the pension and disability plans was equivalent to the annual contributions of $2,988 (2011 - $2,758) for the year ended March 31, 2012 which was recorded in salaries, wages and benefits.

At December 31, 2011, the Management Employees Pension Plan reported a deficiency of $517,726 (2010 - $397,087) and the Public Service Pension Plan reported a deficiency of $1,790,383 (2010 - $2,067,151).

NOTE 10 NET ASSETS

The accumulated surplus is made up as follows:

as at March 31, ($ thousands)	2012	2011
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

(a) Contributed Surplus

Contributed surplus of $3,647 (2011 - $3,647) represents equity received by the Department of Finance and Enterprise in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

(b) Share Capital

as at March 31, ($ thousands)	2012	2011
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

NOTE 11 EXTERNAL INVESTMENT COSTS

External investment costs include external investment management and performance-based fees, as well as asset administration, legal and other expenses incurred on behalf of the Corporation's clients.

External investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Fees charged by external managers include regular management fees as well as performance/incentive-based fees. These fees include significant estimates and measurement uncertainty. Actual results could differ from these estimates.

External asset administration, legal and other expenses are incurred directly by the Corporation's investment portfolios and include fees for the following services: asset custody and administration, audit, compliance and valuation, and investment acquisition, disposition and structuring. During the March 31, 2012 year-end, $39,270 (2011 - $2,467) of one-time acquisition fees related to an investment were incurred.

NOTE 12 CHANGES IN OPERATING ACCOUNTS

for the years ended March 31, ($ thousands)	2012	2011
(Increase) decrease in accounts receivable	$ (1,969)	$ 388
Increase in prepaid expenses	(697)	(532)
Increase (decrease) in accounts payable and accrued liabilities	1,076	(7,929)
Increase in accrued employment benefits	12,697	9,818
	$ 11,107	$ 1,745

NOTE 13 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

At March 31, 2012 assets under administration totalled approximately $69.7 billion (2011 - $68.8 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

as at March 31, ($ thousands)	2012	2011
Pension plans	$ 35,126,435	$ 31,436,597
Ministry of Finance and Enterprise		
General revenue and entity investment funds (1)	10,560,738	14,267,483
Endowment funds (including the Alberta Heritage Savinds Trust Fund)	19,352,952	18,332,498
Insurance-related funds	2,020,941	2,415,934
Other government Ministry investment funds	2,605,675	2,348,256
	$ 69,666,741	$ 68,800,768

(1) General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance and Enterprise

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

NOTE 13 ASSETS UNDER ADMINISTRATION (continued)

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

as at March 31, ($ thousands)	2012	2011
Fixed income		
Fixed income [(1)]	$ 26,009,083	$ 29,318,810
Private mortgages	2,341,206	2,261,523
Inflation sensitive		
Real estate	7,045,460	5,579,575
Infrastructure, timber and private debt	4,373,384	2,452,871
Real return bonds and commodities	2,122,962	1,977,405
Equities		
Public equities and absolute return strategies	25,513,444	24,774,440
Private equity and venture capital	2,179,848	1,930,208
Overlays	81,354	505,936
	$ 69,666,741	$ 68,800,768

(1) General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance and Enterprise

NOTE 14 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans and other entities for which the Corporation provides investment management services. The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

for the years ended March 31, ($ thousands)	2012	2011
Revenues		
Indirect cost recoveries	$ 93,174	$ 76,680
Expenses		
Interest on advance from Province of Alberta	265	195
Contracted services (rent and other)	587	561
	852	756
Assets		
Accounts receivable	13,574	13,880
Liabilities		
Accounts payable	-	577
Advance from Province of Alberta	28,249	28,249
	$ 28,249	$ 28,826

NOTE 15 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain and motivate top performers. Base salaries are market driven and variable compensation programs reward consistent value-added performance.

The tables below present total compensation of the directors and senior management of the Corporation earned for the year ended March 31, 2012 in accordance with Treasury Board directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies and Crown-controlled organizations.

for the years ended March 31, ($ thousands)	Base Salary[1]	Variable Pay[2]	Other Cash Benefits[3]	Other Non-Cash Benefits[4]	2012 Total	2011 Total
Chairman of the Board[5]	$ -	$ -	$ 105	$ -	$ 105	$ 93
Board Members[5]	-	-	427	-	427	385
Chief Executive Officer	500	1,000	17	70	1,587	1,488
Deputy Chief Investment Officer, Change Management [6]	296	580	59	44	979	827
Chief Financial Officer	250	135	1	36	422	412
Chief Risk Officer	225	190	1	46	462	458
Senior Vice President, Fixed Income Investments	265	370	1	50	686	706
Senior Vice President, Public Equities	269	590	-	42	901	770

(1) Base Salary consists of all regular pensionable base pay earned.
(2) Variable Pay comprises the Annual Incentive Plan and is accrued based on goal attainment for the calendar year end and paid in the subsequent period.
(3) Other Cash Benefits consist of LTIP and RFU paid in the year, retainers, honoraria, lump sum payments, and any other direct cash remuneration.
(4) Other Non-Cash Benefits consist of the Corporation's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, statutory contributions, and health plan coverage.
(5) Since December 2011, the Board has consisted of 11 independent members including the Chairman, whose compensation is disclosed separately. From December 2009 to December 2011, the Board consisted of 10 independent members including the Chairman.
(6) Prior to August 2011, the Deputy Chief Investment Officer, Change Management, served as Chief Operating Officer.

Deferred Long-Term Incentive Compensation

for the years ended March 31, ($ thousands)	LTIP Grant	RFU Grant	2012 Total	2011 Total
Chief Executive Officer	$ 500	$ -	$ 500	$ 500
Deputy Chief Investment Officer, Change Management	350	-	350	260
Chief Financial Officer	-	-	-	-
Chief Risk Officer	169	-	169	169
Senior Vice President, Fixed Income Investments	240	-	240	239
Senior Vice President, Public Equities	350	-	350	239

The Corporation provides retention incentives to employees through an LTIP and an RFU plan as described in Note 7. LTIP and RFU grants have not been included in the Salaries and Benefits table because they have an initial cash value of zero. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments. When LTIP grants mature after four years, they will pay between zero and three times the size of the grant. The maximum amount will be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. For each of the years 2009 through 2011, the stretch target was $500 million. For 2012, the stretch target is $600 million. RFU(s) have time horizons of one to three years for vesting provisions. The value of the RFU grant fluctuates based on the total rate of return on assets under investment from the date they were awarded.

NOTE 16 CONTRACTUAL OBLIGATIONS

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

($ thousands)	2012	2011
2012	$ -	$ 4,119
2013	4,578	4,271
2014	4,264	3,967
2015	3,775	3,588
2016	3,775	3,588
2017	3,760	-
Thereafter	7,176	10,763
Total	$ 27,328	$ 30,296

The Corporation entered into a lease agreement commencing January 1, 2010, for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the corporation received a lease inducement of $6,768. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease. The total deferred lease inducement as at March 31, 2012, which includes the Corporation's offices in Toronto, is $5,334 (2011 – $6,050). In addition, the Corporation entered into two lease agreements for new facilities commencing March 1, 2012. The first agreement is for 5 years, with an option to renew for a further five years. The second agreement is for 2 years, with an option to renew for a further period of one year.

Pursuant to Order in Council 23/2008, the Province of Alberta has made available a facility to access up to a maximum of $200,000 for letters of credit for security purposes. This facility is utilized by the investment pools and at March 31, 2012 the balance outstanding against the facility is $14,516 (2011 - $12,878).

NOTE 17 2011-2012 BUDGET

The Corporation's budget for the year ended March 31, 2012 was approved by the Board of Directors on November 25, 2010.

NOTE 18 COMPARATIVE FIGURES

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

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Local Authorities Pension Plan Corp., which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of Alberta Local Authorities Pension Plan Corp. as at December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
April 20, 2012
Edmonton, Alberta

Statements of Financial Position

As at December 31, 2011

		(thousands)		
		2011		2010
Assets				
Cash	$	203	$	84
Accounts receivable		1		2
Due from LAPP (Note 6)		-		79
		204		165
Liabilities				
Accrued liabilities	$	187	$	165
Deferred revenue		17		-
		204		165
Net Assets		-		-
	$	204	$	165

The accompanying notes are part of these financial statements.

Original signed by:

Larry Murray
Chair of the Board

Original signed by:

Meryl Whittaker
President & CEO

Original signed by:

Chris Good
Audit Committee Chair

Statements of Operations

For the year ended December 31, 2011

	(thousands)		
	Budget 2011 (Note 11)	Actual 2011	Actual 2010
Revenue			
Service revenue (Note 6)	$ 2,833	$ 2,254	$ 2,358
Miscellaneous revenue	-	3	2
Total revenue	2,833	2,257	2,360
Operating costs			
Salaries and benefits (Note 9)	1,053	1,006	797
Professional fees	471	276	398
Stakeholder Relations & Communication	414	262	251
Board costs	363	282	313
Actuarial services	279	222	372
General and administrative	253	209	229
Total operating costs	2,833	2,257	2,360
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Financial Information

Statements of Cash Flows

For the year ended December 31, 2011

	(thousands) 2011	2010
Operating activities		
Annual surplus	$ -	$ -
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	1	(1)
Increase (Decrease) in accrued liabilities	22	(65)
Increase (Decrease) in deferred revenue	17	-
Decrease (Increase) in amount due from LAPP	79	(36)
Increase (Decrease) in cash for the year	119	(102)
Cash at beginning of year	84	186
Cash at end of year	$ 203	$ 84

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2011

1. Authority

Alberta Local Authorities Pension Plan Corp. (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000 and commenced operations on January 1, 2006. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

2. Nature of operations

The Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 (the Act) and the *Financial Administration Ac*t, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

3. Conversion to public sector accounting standards

Starting with the 2011 fiscal year, the Corporation has adopted Canadian public sector accounting standards (PSAS) as its accounting framework. These financial statements are the first financial statements that the Corporation has applied Canadian PSAS.

The impact of the conversion to Canadian PSAS has not resulted in any change to the shareholder's equity and there is no restatement required to prior year amounts in the statements of financial position or statements of operations.

4. Summary of significant accounting policies and reporting practices

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Revenue

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

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Financial assets of the Corporation are limited to cash and accounts receivable.

Liabilities

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

5. Share capital

	2011	2010
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

6. Service revenue / Due from LAPP

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

7. 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.

8. Commitments

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

	(thousands)
2012	196
2013	202
2014	209
	$ 607

9. Salaries and benefits disclosure

(thousands)

		2011				2010
		Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Corporation Board Chair	[d]	$ -	$ 16	$ -	$ 16	$ 18
Corporation Board Members (excluding Chair)	[d]	-	140	-	140	160
President & Chief Executive Officer		196	47	50	293	285
Vice-Presidents:						
Investments	[e]	101	35	6	142	84
Policy and Research	[f]	127	6	28	161	97
Stakeholder Relations	[g]	124	22	30	176	113

[a] Base salary includes regular base pay.

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

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

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

(e) This is a 0.6 FTE position. Position was vacant 5 months in 2010.

(f) Position was vacant 5 months in 2010.

(g) Position was vacant 3 months in 2010.

10. 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 $104 for the year ended December 31, 2011 (2010: $83).

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. The latest valuation at December 31, 2010, indicated the Public Service Pension Plan had a deficiency of $2,067,151 (2009: $1,729,196) and the Management Employees Pension Plan had a deficiency of $397,087 (2009: $483,199). At December 31, 2010, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $39,559 (2009: $39,516).

Actuarial valuations report 2010 amounts for the 2011 fiscal year.

11. Approval of 2011 budget

The 2011 budget was approved by the Corporation's Board of Directors on September 10, 2010 and by the Minister of Finance and Enterprise on October 8, 2010.

12. Financial statement approval

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

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ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

Year Ended December 31, 2011

These Alberta Pensions Services Corporation (APS) Financial Statements are a copy from the APS 2011 Annual Report. A complete copy of the APS Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the APS website at www.aps.ca.

Independent Auditor's Report

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Pensions Services Corporation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the statements of operations and cash flow for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 18, 2012

Edmonton, Alberta

Statements of Operations

YEARS ENDED DECEMBER 31 ($ thousands)	2011 BUDGET	2011 ACTUAL	2010 ACTUAL
EXPENSES			
Staff and related expenses	28,072	25,430	25,692
Contract services	5,816	6,779	7,297
Materials and supplies	4,821	4,615	5,090
Amortization	2,683	2,780	2,906
Data processing and maintenance	1,692	1,778	1,729
Total before plan specific and employer specific services	43,084	41,382	42,714
Plan specific (Note 7)	1,442	1,061	1,057
Employer specific services (Note 8)	14	17	15
Total operating expenses	44,540	42,460	43,786
Recovery of costs (Note 9)	44,540	42,460	43,786

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

Approved by the Board:

[original signed by] [original signed by]

Al Mondor, FCA
Chair
Board of Directors

Garth Sherwin, CA
Vice Chair
Audit Committee

Original signed by: *Original signed by:*

Statements of Financial Position

	2011	2010	2010
($ thousands)			**(Note 3)**
ASSETS	AS AT DECEMBER 31	AS AT DECEMBER 31	AS AT JANUARY 1
Cash	196	210	51
Accounts receivable	54	179	2,530
Prepaid expenses	997	929	505
Due from pension plans (Note 9)	5,041	7,358	1,989
Tangible capital assets (Note 5)	6,539	7,450	8,770
	12,827	16,126	13,845
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued liabilities	2,893	3,831	1,803
Accrued salaries and benefits	1,731	3,035	1,288
Accrued vacation pay	245	204	191
Deferred lease inducement (Note 13)	1,419	1,606	1,793
Unamortized deferred capital contributions (Note 5)	6,539	7,450	8,770
	12,827	16,126	13,845
NET ASSETS			
Net assets (Note 6)	-	-	-
	12,827	16,126	13,845

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

Statements of Cash Flow

YEARS ENDED DECEMBER 31	2011	2010
($ thousands)		
OPERATING TRANSACTIONS		
Non-cash items:		
Amortization of tangible capital assets	2,780	2,906
Decrease in deferred lease inducement (Note 13)	(187)	(187)
Amortization of unamortized deferred capital contributions	(2,780)	(2,906)
	(187)	(187)
Decrease in accounts receivable	125	2,351
Increase in prepaid expenses	(68)	(424)
Decrease (increase) in due from pension plans	2,317	(5,369)
(Decrease) increase in accounts payable and accrued liabilities	(938)	2,028
(Decrease) increase in accrued salaries and benefits	(1,304)	1,747
Increase in accrued vacation pay	41	13
Cash provided by operating transactions	(14)	159
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(1,869)	(1,586)
FINANCING TRANSACTIONS		
Increase in unamortized deferred capital contributions	1,869	1,586
(Decrease) increase in cash	(14)	159
Cash at beginning of year	210	51
Cash at end of year	196	210

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

Notes to the Financial Statements

1. AUTHORITY

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000*. The issued share of the Corporation is owned by the Minister of Finance (the Minister) on behalf of the Government of Alberta, and accordingly the Corporation is exempt from income and other taxes.

2. NATURE OF OPERATIONS

The Minister, operating under the authority of the *Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000* is responsible for administering the following public sector pension plans:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)

The Minister, operating under the authority of the *Provincial Court Act* and *Court of Queen's Bench Act (Chapter 196, Regulation 2001)* is responsible for administering the following public sector pension plans:

- Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

The Minister, operating under the authority of the *Members of the Legislative Assembly Pension Plan Act, Chapter M-12, Revised Statutes of Alberta 2000* is responsible for administering the following public sector pension plan:

- Members of the Legislative Assembly Pension Plan (MLAPP)

The Minister, operating under the authority of the *Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000* and the *Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06)* is responsible for administering the following public sector pension plan:

- Supplementary Retirement Plan for Public Service Managers (MSRP)

Specific pension services required by the pension plans and employers are provided by the Corporation pursuant to a Pensions Services Agreement with the Minister through to December 31, 2012. These services include the collection and recording of contributions, calculating and paying benefits, communicating to plan members and employers, pension plan board support services and risk management services. The Corporation also provides specific services, on a cost recovery basis, for some employers (Note 8).

3. CONVERSION TO PUBLIC SECTOR ACCOUNTING STANDARDS

Commencing with the 2011 fiscal year, APS has adopted Canadian Public Sector Accounting Standards (PSAS). These financial statements are the first financial statements for which APS has applied Canadian PSAS.

The impact of the conversion to Canadian PSAS has not resulted in any change to net assets and there is no restatement required to prior year amounts in the statements of financial position or statements of operations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements are prepared by management in accordance with Canadian PSAS.

TANGIBLE CAPITAL ASSETS

Tangible capital assets are recorded at cost. The threshold for capitalizing software is $100,000; and $5,000 for all other items, where these items have a useful life in excess of one year. Amortization is calculated on a straight line basis as follows:

Assets under construction	Refer to (a) below
Computer hardware	3 years
Computer software	3 years
Furniture and equipment	5 years
Telephone system	3 years
Leasehold improvements	Refer to (b) below

(a) Assets under construction, which include the replacement of the current pension services systems and the development of its applications, are not amortized.

(b) Amortization is over the term of lease plus one optional renewal period, to a maximum of five years.

Amortization will commence the month immediately after the tangible capital asset has been deemed substantially complete and ready for productive use.

CAPITAL CONTRIBUTIONS

All externally restricted contributions received for the acquisition or construction of depreciable tangible capital assets are recognized as revenue when the assets are used for the purposes specified. All external restricted contributions received before meeting these criteria are recorded as a liability until the assets are used.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities, accrued salaries and benefits and accrued vacation pay. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

5. TANGIBLE CAPITAL ASSETS

($ thousands)

TANGIBLE CAPITAL ASSETS		2011		2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	7,586	4,388	3,198	4,324
Computer hardware	7,276	5,524	1,752	1,898
Assets under construction	834	-	834	-
Furniture and equipment	1,357	820	537	750
Telephone system	406	216	190	295
Computer software	12,498	12,470	28	183
	29,957	23,418	6,539	7,450

Financing obtained from the public sector pension plans to acquire tangible capital assets is recorded as unamortized deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

6. SHARE CAPITAL

SHARE CAPITAL	2011 $	2010 $
Authorized:		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued:		
1 common share (Note 1)	1	1

7. PLAN SPECIFIC

($ thousands)

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

PLAN SPECIFIC	2011				2010
	Contract Services	Materials and Supplies	Board Remuneration	Total	Total
SFPP	370	93	43	506	306
PSPP	193	124	-	317	411
MEPP	98	111	26	235	279
MSRP	15	-	-	15	28
PJMC(R)PP	7	3	-	10	19
MLAPP	3	-	-	3	-
PJMC(U)PP	(1)	-	-	(1)	-
PSM(CM)PP	4	(28)	-	(24)	14
Total	689	303	69	1,061	1,057

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

8. EMPLOYER SPECIFIC SERVICES

($ thousands)

In 2008, the Minister of Finance approved the Corporation administering post retirement benefits for certain employers who participate in the public sector pension plans. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

EMPLOYER SPECIFIC SERVICES	2011	2010
City of Calgary	9	7
City of Edmonton	5	3
Government of Alberta	2	2
EPCOR	1	3
	17	15

9. RECOVERY OF COSTS

($ thousands)

The Corporation charges each public sector pension plan with its proportionate share of the Corporation's operating and plan specific costs based on the allocation formula approved by the Minister of Finance. The current allocation formula was effective January 1, 2010. At December 31, 2011, $5,041 (2010 - $7,358) is receivable from the plans. The receivable at year-end is directly related to the timing of the receipt and disbursement of funds.

RECOVERY OF COSTS	2011	2010
LAPP	27,425	27,861
PSPP	10,775	11,584
MEPP	1,592	1,770
SFPP	1,507	1,445
MSRP	484	525
PSM(CM)PP	255	331
PJMC(R)PP	93	95
PJMC(U)PP	78	80
MLAPP	53	50
	42,262	43,741
Interest and other miscellaneous cost recoveries*	181	30
Employer specific services (Note 8)	17	15
Recovery of costs	42,460	43,786

9. RECOVERY OF COSTS (CONTINUED)
($ thousands)

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

* During the year, the Corporation entered into an agreement to provide certain administration services on a cost-recovery basis to Alberta Investment Management Corporation (AIMCo), a related Crown Corporation, in respect of an AIMCo supplementary retirement plan. The service agreement provided APS with a one-time fee in the amount of $75 with recurring annual fees of $75 commencing January 1, 2011.

10. EMPLOYEE FUTURE BENEFITS
($ thousands)

The Corporation participates in three multi-employer, defined benefit public sector pension plans, the Public Service Pension Plan, the Management Employees Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The Trustee of the plans is the Minister of Finance. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of $2,314 for the year ended December 31, 2011 (2010: $2,207). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. The latest valuation at December 31, 2010 indicated the Public Service Pension Plan had a deficiency of $2,067,151 (2009 - $1,729,196) and the Management Employees Pension Plan had a deficiency of $397,087 (2009 - $483,199). At December 31, 2010, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $39,559 (2009 - $39,516).

11. RELATED PARTY TRANSACTIONS
($ thousands)

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

RELATED PARTY TRANSACTIONS		2011	2010
Service Alberta	Data processing, postage and printing	987	1,101
Alberta Finance	Risk management and insurance	97	46
University of Alberta	Management training	5	22
		1,089	1,169

At year-end, $271 (2010 - $394) is payable to Service Alberta.

The Corporation also provided services to the pension plans and pension plan boards and committees as disclosed in Notes 7 and 9. These transactions are in the normal course of operations.

12. SALARIES AND BENEFITS DISCLOSURE

Details of Executive and Board member remuneration are presented in the Compensation Discussion and Analysis section of the APS 2011 Annual Report.

13. COMMITMENTS

($ thousands)

APS is committed to payments for consulting services and lease payments. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

YEAR	COMMITMENTS
2012	4,229
2013	1,729
2014	1,792
2015	1,916
2016	1,916
Thereafter	5,110
	16,692

The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for ten years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,868. The inducement is recognized as a reduction in lease expense over the ten-year term of the lease.

During the year, the Corporation entered into an agreement for consulting services related to a major pension services systems replacement project in the amount of $2,500, payable in equal monthly installments from January to June 2012.

14. FINANCIAL INSTRUMENTS

Liquidity risk is the risk of not being able to meet the Corporation's cash requirements in a timely and cost-effective manner. The Corporation's only source of liquidity is amounts charged to pension plans (Note 9).

It is management's opinion that the Corporation is not exposed to any risk arising from this financial instrument.

15. 2011 BUDGET

The Corporation's 2011 budget was approved by the Board of Directors on December 1, 2010.

16. 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, 2012

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Members of the Alberta Securities Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 13, 2012

Edmonton, Alberta

Statement of Financial Position

	($ thousands) March 31 2012	March 31 2011
Assets		
Cash (Note 4)	$ 8,970	$ 9,114
Accounts receivable	32	140
Prepaid expenses	97	112
Restricted cash (Note 3)	299	-
Investments (Note 4)	29,914	28,238
Capital assets (Note 6)	8,652	9,991
	$ 47,964	$ 47,595
Liabilities		
Accounts payable and accrued liabilities	$ 4,372	$ 4,084
Accrued vacation and benefit liabilities	615	501
Lease inducement (note 7)	2,994	3,213
Accrued benefit liability (Note 8)	4,881	4,351
	12,862	12,149
Net assets		
Net assets, beginning of period	35,446	37,772
Net operating results	(344)	(2,326)
Net assets, end of period (Note 3)	35,102	35,446
	$ 47,964	$ 47,595

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

Approved by the Members

[original signed by]
William S. Rice, Q.C.
Chair and Chief Executive Officer

[original signed by]
Daniel McKinley, FCA
Member

Statement of Operations

	2012 Budget	2012 Actual	2011 Actual
	($ thousands)		
	For year ended March 31		
	(Note 11)		
Revenue			
Fees (Note 9)	$ 26,499	$ 27,990	$ 26,468
Investment Income (Note 5)	1,714	1,757	2,557
Settlement payments and cost recoveries (Note 9)	-	1,123	801
Administrative penalties (Note 3)	1,300	457	226
Conference fees and other	-	17	35
	29,513	31,344	30,087
Expense			
Salaries and benefits	23,664	21,966	21,719
Administration	3,515	2,915	2,781
Premises	2,528	2,716	3,051
Professional services	3,705	2,415	2,926
Amortization	1,286	1,504	1,320
Investor education (note 3)	615	172	616
	35,313	31,688	32,413
Budget contingency	1,987	-	-
Net operating results	$ (7,787)	$ (344)	$ (2,326)

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

Financial Information

Statement of Cash Flows

	($ thousands) For the year ended March 31	
	2012	**2011**
Operating transactions		
Fees and other	$ 28,015	$ 26,486
Payments to and on behalf of employees	(20,989)	(21,012)
Payments to suppliers for goods and services	(7,593)	(8,698)
Investment income	1,757	2,557
Settlement payments and cost recoveries	1,123	801
Administrative penalties	464	274
Cash received from operating transactions	2,777	408
Capital transactions		
Cash used to acquire capital assets	(952)	(8,720)
Cash from lease inducement	-	3,286
Proceeds on disposal	6	6
Cash used in capital transactions	(946)	(5,428)
Investing transactions		
(Increase) decrease in restricted cash	(299)	280
Increase in portfolio investments	(1,676)	(2,489)
Transfer from portfolio investments	-	5,000
Cash (used in) received from investing transactions	(1,975)	2,791
Decrease in cash	(144)	(2,229)
Opening cash	9,114	11,343
Closing cash	$ 8,970	$ 9,114

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

Notes to the Financial Statements

March 31

($ thousands)

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws.

The ASC's investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance. AIMCo invests the Commission's assets in pooled investment funds in accordance with the investment policy asset mix approved by the Commission. The ASC does not participate in capital market investment decisions or transactions.

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (a), (b) and (c).

a) INVESTMENTS

Fixed-income securities and equities are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Derivative contracts not designated as hedges are recorded at fair value.

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written-down value is deemed to be the new cost.

b) INVESTMENT INCOME AND EXPENSES

Investment income and investment expense are recorded on the accrual basis. Investment income is accrued where there is reasonable assurance as to its measurement and collectibility.

Gains and losses arising as a result of disposal of investments are included in the determination of investment income.

Income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

c) VALUATION OF INVESTMENTS

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

i) Public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, the average of the latest bid and ask prices quoted by an independent securities valuation company.

Note 2 (continued)

ii) Private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. The value of derivative contracts is included in the fair value of the ASC's investment in the Canadian Dollar Public Bond Pool and certain equity funds (Note 4). The fair value of derivative contracts is determined at the reporting date.

d) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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

e) CAPITAL ASSETS

Capital assets are recorded at cost.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leaseholds	over 15 - year lease term December 2010 – November 2025

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

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

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

g) EMPLOYEE FUTURE BENEFITS

The ASC participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan, with other government entities. This plan is accounted for as a defined contribution plan as the ASC has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements are comprised of the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The ASC established a retirement plan for one employee at the time of transition to a provincial corporation. The employee is retired and the plan costs are fully provided for.

The ASC maintains a Supplemental Pension Plan for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on services and management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the Supplemental Pension Plan. The average remaining service period of active employees of the Supplemental Pension Plan is six years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the ASC. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act* (Canada). The expense included in these financial statements represents the current contributions made on behalf of the employees.

Note 2 (continued)

h) LEASE INDUCEMENT

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

i) ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include uncollectible amounts of accounts receivable for administrative penalties and related cost recoveries, the useful lives of capital assets, and the value of accrued employee benefit liabilities. Actual results could differ from those estimates.

Estimates of capital asset useful lives are outlined in Note 6.

Benefit liability estimates are primarily subject to actuarial assumptions summarized in Note 8.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. However, it is not possible to estimate what, if any, subsequent recoveries may occur.

j) RESTRICTED CASH

The *Securities Act* (Alberta) restricts the use of revenues the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of securities market operation.

NOTE 3 RESTRICTED CASH AND NET ASSETS

Net assets include $299 of accumulated net penalty revenues ($0 in F2011) because accumulated penalty revenues exceeded eligible expenditures. This amount is represented by restricted cash, as described in Note 2(j).

The change in restricted cash is comprised of:

	2012	2011
Administrative penalties (including disgorgements of $3.4 million, $0 F2011)	$ 13,060	$ 6,671
Less provision for uncollectible amounts	(12,744)	(6,670)
Plus recoveries of prior year assessments	141	222
Net realizable value	457	223
Interest income and other	–	3
Administrative penalty revenue	457	226
Plus: Education seminar fees	14	34
Less: Eligible education expenses	(172)	(616)
Plus: Eligible expenses funded from operations	–	76
Restricted cash increase (decrease)	299	(280)
Restricted cash opening balance	–	280
Restricted cash closing balance	$ 299	$ -

NOTE 4 CASH AND INVESTMENTS

a) SUMMARY

	2012			2011		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	$ 8,970	$ 8,970		$ 9,114	$ 9,114	
Investments						
Deposit in the CCITF	$ 76	$ 76	0.3	$ 75	$ 75	0.2
Fixed-income securities	22,303	22,687	75.0	21,041	20,823	71.9
Equities	7,535	7,469	24.7	7,122	8,080	27.9
	$ 29,914	$ 30,232	100.0	$ 28,238	$ 28,978	100.0

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF portfolio comprises high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2012, securities held by the CCITF have a time weighted return of 1.26 per cent per annum (1.1 per cent in F2011).

The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

Fixed-income securities held at March 31, 2012 have maturities ranging from less than one year to over 10 years and an average duration of 6.31 years. The fixed income pool includes a mix of high-quality government and corporate (public and private) fixed income securities and debt related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

b) INVESTMENT RISK MANAGEMENT

Income and financial returns of the ASC are exposed to credit, market and interest rate risk.

AIMCo manages risk through diversification within each asset class, and quality and duration constraints on fixed-income instruments, and extensive use of derivative contracts. ASC's investments include derivatives as described in the annual MD&A.

In order to earn an optimal financial return at an acceptable level of risk, management has established an investment policy that is reviewed annually. Investment income risk is reduced through asset class allocation targets of 75 per cent fixed-income securities and 25 per cent equities with a small value of residual cash.

NOTE 5 INVESTMENT INCOME

The ASC's investment income included $1,343 from interest-bearing securities ($1,546 in F2011) and $414 from equities ($1,011 in F2011).

The ASC's investments realized market value returns of 4.3 per cent for the year ended March 31, 2012 (10.6 per cent in F2011). This performance compares to a benchmark (composite of DEX T-Bill, Bond and S&P/TSX indexes) gain of 4.9 per cent in F2012 and a benchmark gain of 9 per cent in F2011.

NOTE 6 CAPITAL ASSETS

	Computer equipment and software	Furniture and equipment	Leaseholds	2012 Total	2011 Total
Estimated useful life	3 years	10 years	Lease Duration		
Cost					
Beginning of year	$ 4,163	$ 2,324	$ 6,107	$ 12,594	$ 8,161
Additions	82	69	20	171	9,289
Disposals	(1,481)	(25)	-	(1,506)	(4,856)
	$ 2,764	$ 2,368	$ 6,127	$ 11,259	$ 12,594
Accumulated amortization					
Beginning of year	$ 2,090	$ 380	$ 133	$ 2,603	$ 6,133
Amortization expense	876	227	407	1,510	1,287
Disposals	(1,481)	(25)	-	(1,506)	(4,817)
	$ 1,485	$ 582	$ 540	$ 2,607	$ 2,603
Net book value	$ 1,279	$ 1,786	$ 5,587	$ 8,652	$ 9,991

Leaseholds at March 31, 2012 are for a 15 - year lease commencing December 1, 2010.

Disposals in 2012 are primarily the result of a technology assets review.
Disposals in 2011 were the result of a December 2010 office relocation.

Amortization of $1,504 ($1,320 in F2011) includes capital amortization of $1,510 ($1,287 in F2011) less proceeds on disposal of $6 (F2011 less proceeds of $6 plus loss on disposal $39).

NOTE 7 LEASE INDUCEMENT

	2012	2011
Lease term		
15 years ending November 30, 2025	$2,994	$3,213

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability is comprised of:

	2012	2011
Retirement Plan	$ 135	$ 160
Supplemental Pension Plan	4,848	4,274
Less: accounts payable	(102)	(83)
	$ 4,881	$ 4,351

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

	2012	2011
Public Service Pension Plan	$ 819	$ 749
Registered Retirement Savings Plan	483	489
Supplemental Pension Plan	651	653
	$ 1,953	$ 1,891

a) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2011, the Public Service Pension Plan reported a deficiency of $1,790,383 and in 2010 a deficiency of $2,067,151.

b) REGISTERED RETIREMENT SAVINGS PLAN

The ASC makes contributions on behalf of employees who do not participate in the Public Service Pension Plan to employee Registered Retirement Savings Plans.

c) RETIREMENT PLAN

The Retirement Plan is unfunded and the benefits will be paid to August 2017 ($25 in F2012, $24 in F2011) 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 ($128 effective January 1, 2012, and $125 effective January 1, 2011) imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the Commission. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

Actuarial valuations of the Supplemental Pension Plan are undertaken every three years. At March 31, 2012, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 31, 2015. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

Note 8 (continued)

Balance sheet at March 31	2012	2011
Accrued benefit and unfunded obligation	$ 5,877	$ 4,253
Unamortized transitional obligation	(8)	(34)
Unamortized actuarial (loss) gain	(1,021)	55
Accrued benefit liability	$ 4,848	$ 4,274

Accrued benefit obligation	2012	2011
Accrued benefit obligation at beginning of the year	$ 4,253	$ 3,676
Service cost	366	393
Interest cost	270	244
Benefits paid	(77)	(73)
Actuarial loss	1,065	13
Accrued benefit obligation at end of the year	$ 5,877	$ 4,253

Pension expense	2012	2011
The pension expense for the Supplemental Pension Plan is as follows:		
Service cost	$ 366	$ 393
Interest cost	270	244
Amortization of transitional obligation	22	30
Recognized actuarial gains during the year	(7)	(14)
	$ 651	$ 653

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

	2012	2011
Discount rate, year- end obligation	4.0%	6.2%
Discount rate, annual pension expense	6.2%	6.2%
Rate of inflation, year-end obligation	2.25%	2.5%
Salary increases, year-end obligation	3.5%	4.0%
Remaining service life, year-end obligation	6 years	5 years

NOTE 9 FEES, SETTLEMENT PAYMENTS AND COST RECOVERIES

	2012	2011
Distribution of securities	$ 12,170	$ 10,954
Registrations	10,373	10,210
Annual financial statements	5,217	5,014
Orders (applications)	230	290
Total fees	$ 27,990	$ 26,468
Settlement payments and cost recoveries	$ 1,115	$ 1,278
Less provision for uncollectible amounts	(313)	(480)
Plus recoveries of prior year assessments	321	3
Total settlement payments and cost recoveries	$ 1,123	$ 801

NOTE 10 COMMITMENTS AND CONTINGENCIES

Details of commitments to organizations outside the ASC and contingencies from legal actions are set out below. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

a) COMMITMENTS

Premises lease and equipment rental - Commitments arising from contractual obligations are associated primarily with the lease of premises to March 31, 2025 and rental of office equipment to 2016 totalling $60,801 ($59,428 in F2011). These commitments become expenses of the ASC when the terms of the contracts are met.

2012-13	$ 2,787
2013-14	2,874
2014-15	2,966
2015-16	3,447
2016-17	4,323
Thereafter	44,404
Total	$ 60,801

Canadian Securities Administrators (CSA) - The ASC shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

Note 10 (continued)

National systems operations agreements - CDS Inc. (CDS) operates the SEDAR (electronic filing and payment), NRD (national registration database) and SEDI (insider trading) systems on behalf of the CSA under various operating agreements. The ASC, as one of the agreement signatories, commits to pay CDS up to 11.7 per cent of any shortfall from approved system operating costs that exceed revenues. Alternatively, CDS must pay to CSA revenues in excess of system operating costs (surplus). The surplus is not divisible; the CSA owns it as a group. CDS payments received from accumulated system operating surpluses since inception and interest earned totalled \$80,522 at March 31, 2012 (\$64,880 in F2011). This amount is held in trust by the Ontario Securities Commission in segregated bank accounts and earns interest at bank prime less 1.75 per cent. The principal CSA administrators, including the ASC, have agreed that surplus amounts can only be used to offset any shortfall in revenues, develop or enhance the systems and reduce fees charged to users. The CSA is remediating these systems, which will include a new service agreement for operation of the systems, and has paid approximately \$2.5 million to date from accumulated surplus's in connection therewith.

b) LEGAL ACTIONS

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

NOTE 11 BUDGET

The ASC's budget was approved on January 12, 2011.

NOTE 12 RELATED-PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of \$49 (\$58 in F2011) in administration expense.

SCHEDULE OF SALARIES AND BENEFITS

Schedule A

For the Year Ended March 31, 2012

($ thousands)

	2012				2011
	Base Salary (1)	Cash Benefits (2)	Non-cash Benefits (3)	Total	Total
Chair, Securities Commission (4)	$ 495	$ 83	$ 143	$ 721	$ 709
Executive Director	$ 335	$ 57	$ 147	$ 539	$ 522
Vice-Chair, Securities Commission (4)	$ 310	$ 47	$ 119	$ 476	$ 453
Vice-Chair, Securities Commission (4)	$ 310	$ 47	$ 91	$ 448	$ 425
Independent Members (5)	$ 504	-	-	$ 504	$ 532

1) Base salary includes regular base pay and Independent Member compensation.

2) Cash benefits include variable pay and Chair and Executive Director's automobile allowances.

3) Employer's share of all employee benefits including current and prior service cost for the unfunded supplemental pension plan for designated executives as described in Note 8(d) of the financial statements and summarized in the accounting narrative.

4) The Chair and Vice-Chairs are full-time Commission Members.

5) The Independent Members compensation includes fees paid in dollars for governance responsibilities of $353,000 ($294,000 in F2011) and hearing and application panel participation of $151,000 ($238,000 in F2011). Independent Member fees include a $10,000 annual retainer, $2,500 for Committee memberships, $5,000 for Committee chairing and $5,000 for the Lead Independent Member position. Meeting attendance fees include $1,000 per day for an ASC meeting and $750 for a Committee meeting. Hearing fees are payable as to $1,000 per hearing day and $125 per hour of related preparation, review and decision writing.

SCHEDULE OF SALARIES AND BENEFITS **Schedule A (continued)**

Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan as described in Note 8(d) of the ASC financial statements, executive officers may receive supplemental retirement payments. Supplemental Pension Plan costs, as detailed below for the four most highly paid executives of the ASC, are not cash payments in the period, but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The Supplemental Pension Plan provides future pension benefits to participants based on years of service and earnings as described in Note 8(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a cost of borrowing interest rate, and management's best estimate of expected inflation and salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

	($ thousands)			
	2012			2011
	Current Service Costs	Prior Service and Other	Total	Total
Chair, Securities Commission	$ 121	$ (7)	$ 114	$ 103
Executive Director	$ 98	$ 18	$ 116	$ 115
Vice-Chair, Securities Commission	$ 77	$ 9	$ 86	$ 83
Vice -Chair, Securities Commission	$ 59	$ 4	$ 63	$ 59

The accrued obligation for each of the four highest paid executives under the Supplemental Pension Plan is outlined in the following table:

	($ thousands)		
	Accrued Obligation April 1, 2011	Changes in Accrued Obligation	Accrued Obligation March 31, 2012
Chair, Securities Commission	$ 479	$ 161	$ 640
Executive Director	$ 732	$ 243	$ 975
Vice-Chair, Securities Commission	$ 601	$ 353	$ 954
Vice -Chair, Securities Commission	$ 310	$ 181	$ 491

N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

To the Shareholder of N.A. Properties (1994) Ltd.

Report on the Financial Statements

I have audited the accompanying financial statements of N.A. Properties (1994) Ltd., which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and deficit for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of N A. Properties (1994) Ltd. as at March 31, 2012, March 31, 2011, and April 1, 2010, and the results of its operations for the years ended March 31, 2012, and March 31, 2011, in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statements of Financial Position

As at March 31

	March 31, 2012	March 31, 2011	April 1, 2010
	($ thousands)		
Assets			(Note 3)
Cash and cash equivalents (Note 5)	$ 2,950	$ 2,915	$ 2,884
Note receivable (Note 6)	52	43	36
	$ 3,002	$ 2,958	$ 2,920
Liabilities			
Obligations under indemnities and commitments (Note 7)	$ 170	$ 213	$ 521
Net assets			
Share capital (Note 8)	5,769	5,769	5,769
Deficit	(2,937)	(3,024)	(3,370)
	2,832	2,745	2,399
	$ 3,002	$ 2,958	$ 2,920

The accompanying notes are part of these financial statements.

On Behalf of the Board:

[Original signed by]

Rod Matheson
Sole Director

Statements of Operations and Deficit

Years Ended March 31

	2012	2011
	($ thousands)	
Revenue		
Interest and other	$ 45	$ 40
Expense		
General and administrative	1	2
Operating income before provision	44	38
Recovery of obligations under indemnities and commitments (Note 6)	43	308
Excess of revenue over expense for the year	87	346
Accumulated deficit, beginning of year	(3,024)	(3,370)
Accumulated deficit, end of year	$ (2,937)	$ (3,024)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2012 and March 31, 2011
(thousands of dollars)

NOTE 1 AUTHORITY

N.A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the *Business Corporation Act, Statutes of Alberta 2000,* Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income tax.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of its remaining assets. The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past three years.

The Company also manages indemnities described in Note 7.

NOTE 3 CONVERSION TO PUBLIC SECTOR ACCOUNTING STANDARDS

Commencing with the 2011/2012 fiscal year, the Company has adopted Canadian public sector accounting standards ("PSAS"). These financial statements are the first year for which the Company has applied Canadian PSAS.

The impact of the conversion to Canadian PSAS has not resulted in any change to the deficit and there is no restatement required to prior year amounts on the balance sheet or the statement of operations and deficit.

Statement of Financial Position
As at April 1, 2010

	($ thousands) Previously Stated	Adjustment	Restated
Assets			
Cash and cash equivalents	$ 2,884	$ -	$ 2,884
Note receivable	36	-	36
	$ 2,920	$ -	$ 2,920
Liabilities			
Obligations under indemnities and commitments	$ 521	$ -	$ 521
Net assets			
Share capital	5,769	-	5,769
Deficit	(3,370)	-	(3,370)
	2,399	-	2,399
	$ 2,920	$ -	$ 2,920

NOTE 4 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian PSAS. The accounting policies of significance to the Company are as follows:

a) FINANCIAL STATEMENT PRESENTATION

A cash flow statement is not provided due to the limited nature of the Company's operations. All information about the Company's cash flows are contained within the financial statements.

b) FAIR VALUE

The carrying value of cash and accounts receivable approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of other financial assets and liabilities are provided in the applicable notes to the financial statements.

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2012 the deposits in the bank had a time weighted return of 1.3% per annum (2011: 1.1% per annum).

NOTE 6 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, 2012 is $52 (2011: $43). 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, 2012 is estimated to be $149 (2011: $109) using the current interest rate in effect and adjusting the rate for a risk premium.

NOTE 7 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 $170 at March 31, 2012 (2011: $213). 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)	
	2012	2011
Beginning balance	$ 213	$ 521
Recovery of obligations under indemnities and commitments	(43)	(308)
Ending balance	$ 170	$ 213

NOTE 8 SHARE CAPITAL

		($ thousands) 2012	2011
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

Authorized

Unlimited number of Class “A” voting shares
Unlimited number of Class “B” voting shares
Unlimited number of Class “C” non-voting shares
Unlimited number of Class “D” non-voting shares
Unlimited number of Class “E” voting shares
Unlimited number of Class “F” non-voting shares

NOTE 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, 2012 and March 31, 2011.

NOTE 10 FEES AND SALARIES

There were no director’s fees or salaries paid during the year. The Company had no employees in 2012 and 2011.

NOTE 11 BUDGET

The Company’s annual budget appears in the 2011-12 Government and Lottery Fund Estimates. The budget projected a net excess of revenue over expenses for the year of $120. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

GAINERS INC.

Consolidated Financial Statements

September 30, 2011

Financial Information

Independent Auditor's Report

To the Shareholder of Gainers Inc.

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Gainers Inc. which comprise the consolidated statements of financial position as at September 30, 2011 and September 30, 2010, and the consolidated statements of operations and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gainers Inc. as at September 30, 2011 and September 30, 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, CA]

Auditor General

January 13, 2012

Edmonton, Alberta

Consolidated Statements of Financial Position

As at September 30

	($ thousands) 2011 (Note 2)	2010
Assets		
Cash	$ 1	$ 1
Investment in and amount due from former affiliate (Note 6)	-	-
	$ 1	$ 1
Liabilities		
Accounts payable and accrued liabilities	$ 3	$ 3
Principal and interest on prior years income taxes (Note 7)	11,334	11,334
Long-term debt (Note 8)	193,163	193,126
	204,500	204,463
Shareholder's Deficiency		
Share capital (Note 10)	1	1
Accumulated deficit	(204,500)	(204,463)
	(204,499)	(204,462)
	$ 1	$ 1

The accompanying notes are part of these consolidated financial statements.

Approved by the Board of Directors

[Original signed by]

Dan Harrington, Director

Financial Information

Consolidated Statements of Operations

Year ended September 30

	($ thousands)		
	2011		2010
	Budget	Actual	Actual
Expenses			
Legal expenses	$ -	$ 33	$ 30
General and administrative	-	4	7
Annual deficit	-	(37)	(37)
Accumulated deficit, beginning of year	(204,463)	(204,463)	(204,426)
Accumulated deficit, end of year	$ (204,463)	$ (204,500)	$ (204,463)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended September 30

	($ thousands)	
	2011	2010
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (37)	$ (37)
Net change in non-cash working capital items	-	3
	(37)	(34)
Financing activities		
Proceeds from long-term debt	37	33
Change in cash	-	(1)
Cash, beginning of year	1	2
Cash, end of year	$ 1	$ 1

Notes to the Consolidated Financial Statements

September 30
(in thousands of dollars, except per share amounts)

NOTE 1 AUTHORITY

Gainers Inc. is a commercial Crown-controlled corporation and operates under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

Through September 25, 1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. Management does not expect any recovery of that investment.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 CONVERSION TO PUBLIC SECTOR ACCOUNTING STANDARDS

Commencing with the 2010/2011 fiscal year, Gainers Inc. (Gainers) has adopted Canadian public sector accounting standards ("PSAS"). These consolidated financial statements are the first consolidated financial statements for which Gainers has applied Canadian PSAS.

The impact of the conversion to Canadian PSAS has not resulted in any change to the consolidated accumulated deficit and there is no restatement required to prior year amounts on the consolidated statement of financial position or the consolidated statement of operations.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian PSAS.

(A) REPORTING ENTITY AND METHOD OF CONSOLIDATION

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations, which are controlled by Gainers. These organizations are Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the "company".

(B) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of Gainers are limited to financial claims, such as advances to and receivables from other organizations.

Liabilities

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

Liabilities include the unrecognized portions of government transfers received and restricted donations and other contributions.

Valuation of Financial Assets and Liabilities

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

The fair values of cash, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of loans and debts are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

NOTE 4 CASH AND CASH EQUIVALENTS

	($ thousands)	
	2011	2010
Cash	$ 1	$ 1

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	($ thousands)	
	2011	2010
Accounts Payable and Accrued Liabilities	$ 3	$ 3

NOTE 6 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATES

The investment, which has been written down to $nil value, comprises 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, US $100 per share and which carry annual non-cumulative dividends of US $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. Management does not expect any recovery from this claim.

Advances to the former affiliate, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.), which are recorded at $nil value, are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgment was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in Note 8 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 8) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgment was subsequently paid from realizing on collateral security held for the debt.

NOTE 7 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 $87. These non-capital losses expire between 2011 and 2030.

NOTE 8 LONG-TERM DEBT

	2011 ($ thousands)	2010 ($ thousands)
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	13,864	13,827
Accrued interest	34,491	34,491
	$193,163	$193,126

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, 2011 is estimated to be $nil.

PROVINCE OF ALBERTA

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

INTEREST

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

SECURITY

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

MASTER AGREEMENT

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 9 CONTINGENT LIABILITIES

a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Management does not expect any recovery of this claim.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,207 (net of repayments) in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default. Management does not expect any recovery of this claim.

c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement or alternatively, negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

   Alberta obtained summary judgment which has been upheld by the Alberta Court of Appeal in the amount of $2,000 in respect of one of the certificates made by Mr. Pocklington in 1988. The Court of Appeal sent the issue of the amount of interest on the judgment to the Trial Court to calculate. The Trial Court granted summary judgment to Alberta for $10,000 for such interest. The judgments were renewed by Order granted November 25, 2009, in the amount of $12,747. Mr. Pocklington has filed for bankruptcy in California and the Province has registered its claim in California.

NOTE 10 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) 2011	2010
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	(6,000)
	$ 1	$ 1

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

Government Business Enterprises

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ALBERTA GAMING AND LIQUOR COMMISSION

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Gaming and Liquor Commission, which comprise the balance sheets as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Gaming and Liquor Commission as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

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

June 5, 2012

Edmonton, Alberta

Balance Sheet

At March 31
(thousands of dollars)

		2012		2011		April 1, 2010
ASSETS						
Current Assets						
Cash and cash equivalents (note 4)	$	277,007	$	326,265	$	317,799
Accounts receivable		43,982		38,520		33,473
Prepaid expenses and inventories (note 5)		11,626		9,658		10,311
		332,615		374,443		361,583
Property, Plant and Equipment (note 6)		158,768		168,683		176,023
Computer Software (note 7)		3,136		1,432		629
Investment Property (note 8)		5,836		6,344		6,831
Investment in Western Canada Lottery Corporation (note 16)		35,498		28,782		25,387
	$	535,853	$	579,684	$	570,453
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	$	134,411	$	148,177	$	146,813
Due to the Alberta Lottery Fund (note 9)		100,451		80,549		74,862
		234,862		228,726		221,675
Due to General Revenues (note 10)		258,306		322,188		323,413
Provision for Loss on Leased Properties (notes 17 and 18)		1,943		2,189		2,431
Accumulated Other Comprehensive Income						
Provision for Pension Liability (note 3d)		40,742		26,581		22,934
	$	535,853	$	579,684	$	570,453

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[original signed by]

Marguerite J. Trussler
Chairperson of the Board

MANAGEMENT

[original signed by]

Gill Hermanns
Acting Chief Executive Officer

Financial Information

Statement of Operations

For the year ended March 31
(thousands of dollars)

	2012	2011
Liquor Revenue	$ 2,149,205	$ 2,033,482
Liquor Cost of Sales	(1,440,444)	(1,344,426)
	708,761	689,056
Gaming Revenue (note 12)	1,827,341	1,749,301
	2,536,102	2,438,357
Commissions and Federal Payments (note 13)	(461,915)	(439,648)
Operating Expenses (note 14)	(177,488)	(172,478)
PROFIT FROM OPERATIONS FOR THE YEAR	1,896,699	1,826,231
Other Revenue (note 15)	13,262	13,888
Income from Western Canada Lottery Corporation (note 16)	262,332	283,980
NET OPERATING RESULTS (notes 3i, 9 and 10)	$ 2,172,293	$ 2,124,099
OTHER COMPREHENSIVE INCOME (LOSS)		
Loss on Pension Liability	(14,161)	(3,647)
TOTAL COMPREHENSIVE INCOME (notes 3i, 9 and 10)	$ 2,158,132	$ 2,120,452

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31
(thousands of dollars)

	2012	2011
CASH FROM OPERATIONS		
Net operating results for the year	$ 2,172,293	$ 2,124,099
Decrease in provision for loss on leased properties	(246)	(242)
Amortization	42,734	47,619
Loss on disposal of property, plant and equipment	3,807	2,100
Net change in non-cash working capital balances	(21,196)	(3,030)
	2,197,392	2,170,546
Transfers to the Alberta Lottery Fund	(1,451,112)	(1,434,990)
Transfers to General Revenues	(751,000)	(681,000)
	(4,720)	54,556
CASH USED FOR INVESTMENT		
Purchase of property, plant and equipment	(36,943)	(44,132)
Purchase of computer software	(2,335)	(1,164)
Proceeds on disposal of property, plant and equipment	1,456	2,601
Net change in Investment in Western Canada Lottery Corporation	(6,716)	(3,395)
	(44,538)	(46,090)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,258)	8,466
CASH AND CASH EQUIVALENTS, beginning of year	326,265	317,799
CASH AND CASH EQUIVALENTS, end of year	$ 277,007	$ 326,265

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Gaming and Liquor Commission (Commission) operates under the authority of the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000.

The financial statements for the year ended March 31, 2012 were authorized by the Board on June 5, 2012. The Commission is an agency of the Government of Alberta which conducts and manages provincial lotteries, carries out functions respecting gaming under the *Criminal Code* (Canada), and controls, in accordance with legislation, the manufacture, importation, sale, and purchase of liquor for the Government of Alberta. It also administers the Alberta Lottery Fund. The registered office operates out of 50 Corriveau Avenue, St. Albert, Alberta.

NOTE 2 BASIS OF PREPARATION AND FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Statement of Compliance with IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Standards Interpretation Committee (IFRIC).

For all periods up to and including the year ended March 31, 2011, the Commission prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). These financial statements for the year ended March 31, 2012 are the first the Commission has prepared in accordance with IFRS.

Accordingly, the Commission has prepared financial statements with IFRS applicable for periods ending on or after December 31, 2011, together with the comparative period data at and for the years ended March 31, 2011, as described in the accounting policies. In preparing these financial statements, the Commission's opening balance sheet was prepared at April 1, 2010, the Commission's date of transition to IFRS. This note explains the principal adjustments made by the Commission in restating its CGAAP Balance Sheet at April 1, 2010 and its previously published CGAAP financial statements at and for the year ended March 31, 2011.

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. All values are rounded to the nearest thousand dollars except where indicated.

Exemptions applied

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain IFRS.

The Commission has applied the following transition exemptions in the conversion from Canadian GAAP to IFRS:

- *Fair value as deemed cost exemption* – IFRS 1 permits the Commission to take an election to record assets of its choice at their fair value as their deemed cost on transition. The Commission has elected to not measure any item of property, plant and equipment or investment property at its fair value; these long-lived assets have been measured at cost in accordance with IFRS.

- *Leases exemption* – The Commission has determined that they have assessed their leases under CGAAP which has the same effect as the requirements of IFRIC 14. It was concluded that the determination done under CGAAP would have the same outcome under IFRS. Therefore, the Commission has elected to not reassess any leases under IFRS.

- *Business combinations* – IFRS 1 provides an option to apply IFRS 3, Business Combinations, on a full retrospective basis or prospectively from the transition date onwards. The full retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Commission has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the transition date and such business combinations have not been restated.

Effect of Transition to IFRS

An explanation of how the transition from previous CGAAP to IFRS has affected the Commission's financial position, financial performance, and cash flows is set out in the following tables and notes that accompany the tables.

Reconciliation of the Balance Sheet at April 1, 2010
(thousands of dollars)

	Notes	CGAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents	c/d	$ 317,453	$ 346	$ 317,799
Accounts receivable	c/d	33,904	(431)	33,473
Prepaid expenses and inventories	c	31,474	(21,163)	10,311
		382,831	(21,248)	361,583
Property, Plant and Equipment	a/b/c	200,861	(24,838)	176,023
Computer Software	c	629	-	629
Investment Property	a/b	-	6,831	6,831
Investment in Western Canada Lottery Corporation	c	-	25,387	25,387
		$ 584,321	$ (13,868)	$ 570,453
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	c/d	$ 162,484	$ (15,671)	$ 146,813
Due to the Alberta Lottery Fund		74,862	-	74,862
		237,346	(15,671)	221,675
Due to General Revenues	b/e	344,544	(21,131)	323,413
Provision for Loss on Leased Properties		2,431	-	2,431
Provision for Pension Liability	e	-	22,934	22,934
		$ 584,321	$ (13,868)	$ 570,453

Note: CGAAP presentation is per the March 31, 2010 audited financial statements.

Reconciliation of the Balance Sheet at March 31, 2011
(thousands of dollars)

	Notes	CGAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents	c/d	$ 348,975	$ (22,710)	$ 326,265
Accounts receivable	c/d	40,920	(2,400)	38,520
Prepaid expenses and inventories	c	18,175	(8,517)	9,658
		408,070	(33,627)	374,443
Property, Plant and Equipment	a/b/c	184,062	(15,379)	168,683
Computer Software	c	7,401	(5,969)	1,432
Investment Property	a/b	-	6,344	6,344
Investment in Western Canada Lottery Corporation	c	-	28,782	28,782
		$ 599,533	$ (19,849)	$ 579,684
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	c/d	$ 169,730	$ (21,553)	$ 148,177
Due to the Alberta Lottery Fund		80,549	-	80,549
		250,279	(21,553)	228,726
Due to General Revenues	b/e	347,065	(24,877)	322,188
Provision for Loss on Leased Properties		2,189	-	2,189
Provision for Pension Liability	e	-	26,581	26,581
		$ 599,533	$ (19,849)	$ 579,684

Note: CGAAP presentation is per the March 31, 2011 audited financial statements.

Financial Information

Reconciliation of the Statement of Operations for the year ended March 31, 2011
(thousands of dollars)

	Notes	CGAAP	Effect of Transition to IFRS	IFRS
Liquor Revenue		$ 2,033,482	$ -	$ 2,033,482
Liquor Cost of Sales		(1,344,426)	-	(1,344,426)
		689,056	-	689,056
Gaming Revenue	c	2,136,315	(387,014)	1,749,301
		2,825,371	(387,014)	2,438,357
Commissions and Federal Payments	c	(507,704)	68,056	(439,648)
Operating Expenses	b/c	(207,357)	34,879	(172,478)
Profit from Operations for the Year		2,110,310	(284,079)	1,826,231
Other Revenue		13,888	-	13,888
Income from Western Canada Lottery Corporation	c	-	283,980	283,980
Net Operating Results		$ 2,124,198	$ (99)	$ 2,124,099
Other Comprehensive Income				
(Loss) on Pension Liability	e	-	(3,647)	(3,647)
TOTAL COMPREHENSIVE INCOME		$ 2,124,198	$ (3,746)	$ 2,120,452

Note: CGAAP presentation provided above is the re-stated amounts from the March 31, 2011 audited financial statements.

Reconciliation of the Statement of Cash Flows for the year ended March 31, 2011
(thousands of dollars)

	Notes	CGAAP	Effect of Transition to IFRS	IFRS
Cash from Operations				
Net operating results for the year	b/c/e	$ 2,124,198	$ (99)	$ 2,124,099
Decrease in provision for loss on leased properties		(242)	-	(242)
Amortization	b	51,164	(3,545)	47,619
Loss on disposal of property, plant and equipment		2,100	-	2,100
Net change in non-cash working capital balances	c/d	13,529	(16,559)	(3,030)
		2,190,749	(20,203)	2,170,546
Transfers to the Alberta Lottery Fund		(1,434,990)	-	(1,434,990)
Transfers to General Revenues		(681,000)	-	(681,000)
		74,759	(20,203)	54,556
Cash Used for Investment				
Purchase of property, plant and equipment	c	(44,674)	542	(44,132)
Purchase of computer software		(1,164)	-	(1,164)
Proceeds on disposal of property, plant and equipment		2,601	-	2,601
Net change in Investment in Western Canada Lottery Corporation	c	-	(3,395)	(3,395)
		(43,237)	(2,853)	(46,090)
Increase in Cash and Cash Equivalents		31,522	(23,056)	8,466
Cash and Cash Equivalents, beginning of year	c/d	317,453	346	317,799
Cash and Cash Equivalents, end of year	c/d	$ 348,975	$ (22,710)	$ 326,265

Note: CGAAP presentation is per the March 31, 2011 audited financial statements.

Notes to the reconciliations of Balance Sheets, Statements of Operations and Statement of Cash Flows:

(a) Investment Property

Under CGAAP, a warehouse leased to a third party was classified as property, plant and equipment (PP&E). Under IFRS the warehouse was reclassified from property, plant and equipment to investment property. The net book value of the investment property is $6.8 million at April 1, 2010 ($6.3 million at March 31, 2011). There is no impact to Due to General Revenues.

(b) Accumulated Amortization

Under CGAAP, a write down was made on the net book value of PP&E and investment property. Under IFRS the reasons no longer exist for the write-downs previously recorded on the building assets. Additionally, under IFRS new categories of PP&E were created from componentization of building related assets resulting in an increase to accumulated amortization. The net impact of these IFRS adjustments is approximately $1.8 million at April 1, 2010 (March 31, 2011 - $ 98 thousand). The offset is to Due to General Revenues.

(c) Investment in Western Canada Lottery Corporation (WCLC)

Under CGAAP, the investment in WCLC was accounted for using proportional consolidation. Under IFRS, the investment in WCLC will be accounted for using the equity method resulting in a separate Investment in WCLC in the balance sheet of the Commission of $25.4 million at April 1, 2010 ($28.8 million at March 31, 2011). This balance represents the initial investment in WCLC and the Commission's portion of change of equity since commencement of its participation in WCLC.

The following amounts were removed from the Commission's balance sheet, statement of operations and statement of cash flows:

(thousands of dollars)	March 31, 2011	April 1, 2010
Balance Sheet		
Cash	$ 34,283	$ 11,870
Accounts receivable	3,692	1,329
Prepaid expenses and inventory	8,517	21,163
Property, Plant and Equipment	10,739	19,810
Computer Software	5,969	-
	$ 63,200	$ 54,172
Accounts payable and accrued liabilities	$ 34,418	$ 28,785
Statement of Operations		
Ticket Lottery Revenue	$ 796,190	
Ticket Lottery Prizes	(409,176)	
	387,014	
Commissions and Federal Payments	(68,130)	
Operating Expenses	(34,978)	
Net Operating Results	$ 283,906	
Statement of Cash Flows		
Cash from operations	$ 216,895	
Cash used for investment	$ 2,019	

There is no impact to Due to General Revenues.

(d) Funds Held Under Administration

Under CGAAP, the Funds Held Under Administration were excluded from the balance sheet. Under IFRS, these funds will be included in the balance sheet. Total adjustment is as follows:

(thousands of dollars)	March 31, 2011	April 1, 2010
Cash and cash equivalents	$ 11,573	$ 12,216
Accounts receivable	1,292	898
Accounts payable and accrued liabilities	12,864	13,114

There is no impact to Due to General Revenues.

(e) Provision for Pension Liability

Under CGAAP, the Commission did not record a provision for pension liability for its portion of the multi-employer pension plans' liability. Under IFRS, a liability was calculated and is included on the balance sheet. Total liability at April 1, 2010 is $22.9 million (March 31, 2011 - $26.6 million) with an offsetting adjustment to Due to General Revenues.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The preparation of the Commission's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

For long lived assets, judgment is used to estimate each component of an asset's useful life and is based on an analysis of all pertinent factors including the expected use of the asset. If the estimated useful lives were incorrect, this could result in an increase or decrease in the annual amortization expenses, and future impairment charges.

For the provision for pension liability, judgment is used to estimate the underlying assumptions for future salary increases, inflation rates, and discount rates. If these assumptions are incorrect, this could result in an adjustment to the liability and the gain or loss recorded in Other Comprehensive Income in the Statements of Operations.

The estimates at April 1, 2010 and at March 31, 2011 are consistent with those made for the same dates in accordance with CGAAP (after adjustments to reflect any differences in accounting policies). The estimates used by the Commission to present these amounts in accordance with IFRS reflect conditions at April 1, 2010, the date of transition to IFRS and as of March 31, 2011.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are described throughout these notes to the financial statements. The Commission based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future development, however, may change due to market changes or circumstances arising beyond the control of management. Such changes are reflected in the assumptions when they occur.

(a) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Classification depends on the nature and purpose of the financial asset or financial liability and the Commission's intentions.

Classifications are described below:

Cash and cash equivalents	Loans and receivables
Accounts receivables	Loans and receivables
Accounts payable and accrued liabilities	Financial liabilities
Due to Alberta Lottery Fund	Financial liabilities

Loans and receivables
Cash and cash equivalents and accounts receivables are accounted for at cost.

Financial liabilities
Accounts payable and accrued liabilities and due to Alberta Lottery Fund are accounted for at cost.

Impairment
Financial assets and financial liabilities are assessed for indicators of impairment on an annual basis. If there is objective evidence that an impairment exists, the loss is recorded on the Statement of Operations. The impairment loss is measured as the difference between the acquisition cost and the current fair value.

(b) Inventories

Gaming parts and supplies are valued at weighted average cost which is not in excess of net realizable value.

Liquor inventory is held on behalf of liquor suppliers or agents. As such, the value, and related duties and taxes, are not recorded in these financial statements.

(c) Property, Plant and Equipment, Computer Software and Investment Property

Property, plant and equipment, computer software, and investment property are reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the assets, reducing the original cost to estimated residual value. Where an item is comprised of major components with different useful lives, the components are accounted for as separate items. Amortization begins when the asset is put into use. Land is not amortized.

The estimated useful lives, residual value and amortization method are reviewed at the end of each fiscal year, with the effect of any changes in estimate accounted for on a prospective basis.

Investment property is defined as land, building or a combination thereof, that is held to earn rental income rather than for use in the ordinary course of business by the owner. The warehouse located in St. Albert that is leased to Connect Logistics Services Inc. is an investment property.

(d) Defined Benefit Pension Plans

The Commission participates in multi-employer defined benefit pension plans as listed in Note 11. The administrator of the plans informed the Commission that due to the complexity of the calculations, they were unable to provide the necessary information under IAS 19. As such, the Commission engaged the services of an actuary to estimate the Commission's portion of the deficit of the multi-employer defined benefit pension plans. These estimates are based upon the pension plans' most recent actuarial reports and extrapolated to the fiscal year end date of the Commission. These estimates are subject to the reliability of dated actuarial reports and assumptions regarding future salary increases, inflation rates, and discount rates. A sensitivity analysis of the inflation rates and discount rates indicate the estimates are subject to substantial changes resulting from minor changes in the assumptions.

The Provision for Pension Liability, including the underlying assumptions for future salary increases, inflation rates and discount rates, is reviewed annually. Changes to the provision are recorded in Other Comprehensive Income.

Contributions made to the multi-employer pension plans are recorded in Operating Expense on the Statement of Operations.

(e) Investment in an Associate – Western Canada Lottery Corporation

The Commission's investment in its associate is accounted for using the equity method of consolidation. The associate is the Western Canada Lottery Corporation (WCLC) in which the Commission has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.

WCLC is a non-profit organization authorized to manage, conduct and operate ticket lottery activities for its members, the governments of Alberta, Saskatchewan, and Manitoba. The Yukon Territory, the Northwest Territories, and Nunavut participate as associate members.

Under the equity method, the investment in WCLC is carried in the balance sheet at cost plus post acquisition changes in the Commission's share of net assets of WCLC.

The Statement of Operations reflects the share of the results of operations of WCLC. Where there has been a change recognized directly in the equity of WCLC, the Commission recognizes its share of any changes and discloses this, when applicable, in Due to General Revenues. Unrealized gains and losses resulting from transactions between the Commission and WCLC are eliminated to the extent of the interest in WCLC.

The share of income from WCLC is shown on the face of the Statement of Operations.

The financial statements of WCLC are prepared under IFRS for the same reporting period as the Commission. Where necessary, adjustments are made to bring the accounting policies into conformity with those of the Commission.

After application of the equity method, the Commission determines whether it is necessary to recognize an additional impairment loss on the Commission's investment in WCLC. The Commission determines at each reporting date whether there is any objective evidence that the investment in WCLC is impaired. If this is the case, the Commission calculates the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value and recognizes the amount in the income from WCLC in the Statement of Operations.

Upon any loss of significant influence over WCLC, the Commission would measure and recognize any remaining investment at its fair value. Any difference between the carrying amount of WCLC upon loss of significant influence and the fair value of the investment and proceeds from disposal is recognized in the Statement of Operations.

(f) Revenue and Expense Recognition

Revenue from gaming terminals, video lottery terminals and personal play electronic bingo is based on each bet and is recognized at the time that play has been completed and all machine credits have been played or converted to cash. Revenue from play along electronic bingo is recognized at the time of purchase of the cards. Prizes, commissions and federal payments related to gaming terminals, video lottery terminals, and all forms of electronic bingo, are recognized on the same basis as related revenues.

Revenue from the sale of liquor is recognized when goods are shipped and title has passed to the customer. Revenue received in advance of shipment is deferred and recognized when goods are shipped and title has passed to the customer. Cost of product sold related to liquor is recognized on the same basis as the related revenue.

(g) Federal Taxes

Under the Excise Tax Act and Games of Chance (GST/HST) Regulations, the Commission is required to pay GST and Federal Tax on gaming operations. However, the Commission as a Crown agent of the Government of Alberta has a tax-exempt status for its liquor and regulatory operations.

(h) Operating Expenses

Operating expenses are allocated against Provincial Lotteries Revenue or Liquor and Other Revenue, based on the nature of the expense.

(i) Allocation of Total Comprehensive Income

The *Gaming and Liquor Act* requires the Commission to transfer total comprehensive income to the Alberta Lottery Fund and the General Revenue Fund.

Total comprehensive income arising from the conduct of authorized gaming terminal, video lottery, lottery ticket, and electronic bingo in Alberta is transferred to the Alberta Lottery Fund. Note 9 discloses further information on amounts due to the Alberta Lottery Fund.

Total comprehensive income of liquor operations and other income is transferred to General Revenues. Note 10 discloses further information on amounts due to General Revenues.

(j) Contingent Liabilities and Provisions

Contingent liabilities are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty.

Provisions are recognized when the Commission has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Operations net of any reimbursement.

All legal claims are assessed by the Commission's legal counsel to determine the possible liability. Disclosure is made if the assessment of possible liability meets specific criteria and the likelihood is greater than 10%. Additionally, a provision is recognized if the assessment of possible liability meets specific criteria and the likelihood is greater than 50%.

(k) Future Accounting Changes

Future accounting changes are based on standards issued but not yet effective up to the date of the issuance of the financial statements. This listing is of standards and interpretations issued, which management reasonably expects to be applicable at the future date. The Commission is assessing the impact of these new standards on its financial statements.

IAS 9 *Financial Instruments* – Effective for annual periods on or after January 1, 2015 with early adoption permitted. Under IFRS 9 there are new requirements for classifying and measuring financial assets measured at amortised cost and hedge accounting. The Commission is not expecting any impact on the financial statements from the new standard.

IFRS 11 *Joint Arrangements* – Effective for annual periods on or after January 1, 2013 with early adoption permitted. Under IFRS 11 joint arrangements accounted for using the proportionate consolidation method will have to change to the equity method. The Commission is accounting for the WCLC investment using the equity method as an investment in which it holds significant influence. This pronouncement is not expected to have any effect on the financial statements.

IFRS 12 *Disclosure of interests in other entities* – Effective for annual periods on or after January 1, 2013 with early adoption permitted. IFRS 12 provides additional guidance for disclosures of an entity in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Commission is reviewing the requirements of the standard at this time and assessing the effect on the financial statements.

IAS 19 *Employee benefits* – Effective for annual periods on or after January 1, 2013 with early adoption permitted. The objective of IAS 19 is to recommend accounting and disclosures for employee benefits; specifically, the cost of providing employee benefits should be recognized in the period when the benefit is earned by the employee, rather than when the benefit is paid or payable. The Commission is reviewing the requirements of the standard and assessing the effect on the financial statements.

IAS 28 *Investments in Associates and Joint Ventures* – As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed and describes the application of the equity method to investments in joint ventures in addition to associates. The Commission currently applies the equity method to the Investment in WCLC and does not expect this standard to have any effect on the financial statements.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. Additionally, cash and cash equivalents include the proceeds from table games which the Commission holds on behalf of charities; further details are provided in Note 19.

The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2012, securities held by the Fund have a time-weighted yield of 1.3% per annum (March 31, 2011: 1.1% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

NOTE 5 PREPAID EXPENSES AND INVENTORIES
(in thousands)

	2012	2011
Prepaid Expenses	$ 3,067	$ 736
Gaming Parts	7,730	7,947
Supplies	829	975
	$ 11,626	$ 9,658

NOTE 6 PROPERTY, PLANT AND EQUIPMENT
(in thousands)

	Land	Buildings & Leasehold Improvements	Vehicles	Equipment	Gaming Equipment &Terminals	Total
Cost, April 1, 2010	$ 4,113	$ 26,874	$ 3,359	$ 28,145	$ 392,504	$ 454,995
Additions	-	5,760	194	1,634	42,648	50,236
Disposals	-	(24)	(259)	(508)	(35,486)	(36,277)
Cost, March 31, 2011	4,113	32,610	3,294	29,271	399,666	468,954
Accumulated Amortization, April 1, 2010	-	(17,515)	(2,714)	(27,238)	(231,505)	(278,972)
Additions	-	(649)	(388)	(1,199)	(44,515)	(46,751)
Disposals	-	24	245	509	24,673	25,451
Accumulated Amortization, March 31, 2011	-	(18,140)	(2,857)	(27,928)	(251,347)	(300,272)
Net Book Value, March 31, 2011	$ 4,113	$ 14,470	$ 437	$ 1,343	$ 148,319	$ 168,682
Cost, March 31, 2011	$ 4,113	$ 32,610	$ 3,294	$ 29,271	$ 399,666	$ 468,954
Additions	-	900	764	1,471	34,079	37,214
Disposals	-	-	(692)	(338)	(27,537)	(28,567)
Cost, March 31, 2012	4,113	33,510	3,366	30,404	406,208	477,601
Accumulated Amortization, March 31, 2011	-	(18,140)	(2,857)	(27,928)	(251,347)	(300,272)
Additions	-	(793)	(510)	(989)	(42,271)	(44,563)
Disposals	-	-	671	337	24,994	26,002
Accumulated Amortization, March 31, 2012	-	(18,933)	(2,696)	(28,580)	(268,624)	(318,833)
Net Book Value, March 31, 2012	$ 4,113	$ 14,577	$ 670	$ 1,824	$ 137,584	$ 158,768

The estimated useful life over which property, plant, and equipment are amortized is as follows:

Buildings	
Building Structure	40 years
Roof	25 years
HVAC	20 years
Plumbing	40 years
Electrical/Security	25 years
Interior renovations and equipment	20 years
Flooring	20 years
Paving/Concrete/Sidewalks	20 years
Elevators	30 years
Leasehold improvements	Lease term
Vehicles	3 years
Equipment	3 years
Gaming Equipment and Terminals	
Gaming Equipment	10 years or 3 years
Video Lottery Terminals	7 years
Casino Gaming Terminals	7 years

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NOTE 7 COMPUTER SOFTWARE
(in thousands)

	Computer Software	Software Under Development	Total
Cost, April 1, 2010	$ 13,200	$ -	$ 13,200
Additions	435	729	1,164
Disposals	-	-	-
Cost, March 31, 2011	13,635	729	14,364
Accumulated Amortization, April 1, 2010	(12,571)	-	(12,571)
Additions	(361)	-	(361)
Disposals	-	-	-
Accumulated Amortization, March 31, 2011	(12,932)	-	(12,932)
Net Book Value, March 31, 2011	$ 703	$ 729	$ 1,432
Cost, March 31, 2011	$ 13,635	$ 729	$ 14,364
Additions	772	1,563	2,335
Disposals	-	-	-
Cost, March 31, 2012	14,407	2,292	16,699
Accumulated Amortization, March 31, 2011	(12,932)	-	(12,932)
Additions	(631)	-	(631)
Disposals	-	-	-
Accumulated Amortization, March 31, 2012	(13,563)	-	(13,563)
Net Book Value, March 31, 2012	$ 844	$ 2,292	$ 3,136

The estimated useful life over which computer software is amortized is as follows:

Gaming system related	7 years
Other computer software	3 years

NOTE 8 INVESTMENT PROPERTY (LIQUOR WAREHOUSE)
(in thousands)

	Building
Cost, April 1, 2010	$ 27,864
Additions	21
Disposals	-
Cost, March 31, 2011	27,885
Accumulated Amortization, April 1, 2010	(21,033)
Additions	(508)
Disposals	-
Accumulated Amortization, March 31, 2011	(21,541)
Net Book Value, March 31, 2011	$ 6,344
Cost, March 31, 2011	$ 27,885
Additions	-
Disposals	-
Cost, March 31, 2012	27,885
Accumulated Amortization, March 31, 2011	(21,541)
Additions	(508)
Disposals	-
Accumulated Amortization, March 31, 2012	(22,049)
Net Book Value, March 31, 2012	$ 5,836

(a) The estimated useful life over which investment property is amortized is as follows:

Building Structure	40 years
Roof	25 years
HVAC	20 years
Plumbing	20 years
Electrical/Security	25 years
Interior renovations and equipment	20 years
Flooring	20 years
Paving/Concrete/Sidewalks	20 years
Elevators	30 years
Dock Equipment	10 years

(b) Net Profit from Investment Property

	2012	2011
Rental income derived from investment property	$ 2,256	$ 2,256
Direct operating expenses (including repair and maintenance) generating rental income	(248)	(44)
Net profit arising from investment property	$ 2,008	$ 2,212

(c) Fair Value of Investment Property

	2012	2011
Fair value of investment property	$ 21,307	$ 22,987

Investment property is stated at cost. Fair value is based on property tax assessments.

NOTE 9 DUE TO THE ALBERTA LOTTERY FUND
(in thousands)

This amount represents the portion of net operating results from provincial lottery operations, which has not been transferred to the Alberta Lottery Fund.

	2012	2011
Due to the Alberta Lottery Fund, beginning of year	$ 80,549	$ 74,862
Net operating results, Provincial Lotteries (note 12)	1,471,014	1,440,677
Other comprehensive income (loss), Provincial Lotteries (note 12)	-	-
Total comprehensive income, Provincial Lotteries (note 12)	1,471,014	1,440,677
Transfers to the Alberta Lottery Fund	(1,451,112)	(1,434,990)
Due to the Alberta Lottery Fund, end of year	$ 100,451	$ 80,549

Amounts due to the Alberta Lottery Fund are unsecured, non-interest bearing and have no specific terms of repayment.

NOTE 10 DUE TO GENERAL REVENUES
(in thousands)

Due to General Revenues reflects the outstanding balance due to General Revenues from liquor operations and other income, as follows:

	2012	2011
Due to General Revenues, beginning of year	$ 322,188	$ 323,413
Net operating results, Liquor and Other (note 12)	701,279	683,422
Other comprehensive income (loss), Liquor and Other (note 12)	(14,161)	(3,647)
Total comprehensive income, Liquor and Other (note 12)	687,118	679,775
Transfers to General Revenues	(751,000)	(681,000)
Due to the General Revenues, end of year	$ 258,306	$ 322,188

Amounts due to General Revenues are unsecured, non-interest bearing and have no specific terms of repayment.

NOTE 11 EMPLOYEE BENEFIT PLANS
(in thousands)

The Commission participates in three multi-employer defined benefit pension plans; the Management Employees Pension Plan (MEPP), the Public Services Pension Plan (PSPP), and the Supplementary Retirement Plan for Public Service Managers (SRP). The cost of providing benefits under the defined benefit plans is determined separately for each plan by independent actuaries based on several assumptions. An expense and a liability for benefits earned are recognized in the period that employee service has been rendered.

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

The expense for these pension plans is equivalent to the annual contributions of $6,709 for the year ended March 31, 2012 (2011 - $5,890).

The Commission advises the readers of this note, at the time this note was prepared not all the information for disclosure required under IAS 19 was available. The Commission prepared this note with the data for the multi-employer defined benefit plans that was available at the time of preparation. The actuarial information for its proportionate share of the plans at the reporting dates not included in this note is:

- change in the present value of the defined benefit obligations from beginning of the reporting year to end of the reporting year categorized by current service cost, interest expense, remeasurement gains or losses, and benefit payments and
- change in the fair value of the plans' assets from the beginning of the reporting year to end of the reporting year categorized by employer contributions, interest income, remeasurement gains or losses, and benefit payments and
- net pension liability representing the difference between the Commission's defined benefit obligations and its share of the fair value of the plans assets.

The principal assumptions used in determining pension obligations for the Commission are shown below:

	March 31, 2012	March 31, 2011	April 1, 2010
	%	%	%
Discount rate:			
Management Employees Pension Plan	4.50	5.50	6.00
Public Service Pension Plan	4.50	5.50	6.00
Supplementary Retirement Plan	4.50	5.50	6.00
Inflation Rate:			
Management Employees Pension Plan	2.25	2.25	2.25
Public Service Pension Plan	2.25	2.25	2.25
Supplementary Retirement Plan	2.25	2.25	2.25

Average wage increases:			
Management Employees Pension Plan	3.50	3.50	3.50
Public Service Pension Plan	3.50	3.50	3.50
Supplementary Retirement Plan	3.50	3.50	3.50

Additional assumptions are described in the valuation reports for each of the respective plans.

Sensitivity Analysis:

	March 31, 2012	March 31, 2011	April 1, 2010
Valuation date from which results are extrapolated:			
Management Employees Pension Plan	Dec 31, 2009	Dec 31, 2009	Dec 31, 2009
Public Service Pension Plan	Dec 31, 2010	Dec 31, 2010	Dec 31, 2009
Supplementary Retirement Plan	Dec 31, 2009	Dec 31, 2009	Dec 31, 2009
Estimated sensitivity of liabilities to a 1% change in the discount rate:			
Management Employees Pension Plan	13.04 %	13.04 %	13.04%
Public Service Pension Plan	13.20 %	13.20 %	13.39%
Supplementary Retirement Plan	23.98 %	23.98 %	23.98%
Estimated sensitivity of liabilities to a 1% change in the inflation rate, corresponding ultimate general increase rate at validation date :			
Management Employees Pension Plan	-	-	-
Public Service Pension Plan	9.50 %	9.50 %	9.64%
Supplementary Retirement Plan	-	-	-

Pensionable Earnings:	March 31, 2012	March 31, 2011	April 1, 2010
Plans total pensionable earnings at the valuation date (thousands):			
Management Employees Pension Plan	$ 516,682	$ 516,682	$ 516,682
Public Service Pension Plan	$ 2,411,800	$ 2,411,800	$ 2,304,100
Supplementary Retirement Plan	$ 25,898	$ 25,898	$ 25,898
Total AGLC pensionable earnings at the valuation date (thousands):			
Management Employees Pension Plan	$ 7,601	$ 7,601	$ 7,601
Public Service Pension Plan	$ 41,800	$ 41,800	$ 39,500
Supplementary Retirement Plan	$ 497	$ 497	$ 497
Results at Calculation Date (millions):			
Pension plan surplus (deficit) updated with interest to calculation date:			
Management Employees Pension Plan	$ (1,167.0)	$ (750.0)	$ (532.0)
Public Service Pension Plan	(3,421.0)	(2,243.0)	(2,121.0)
Supplementary Retirement Plan	(28.0)	(8.0)	6.0

Proportion of surplus (deficit) attributed to AGLC:			
Management Employees Pension Plan	(17.0)	(11.0)	(8.0)
Public Service Pension Plan	(59.0)	(39.0)	(36.0)
Supplementary Retirement Plan	(0.5)	(0.2)	0.1
Total	$ (76.5)	$ (50.2)	$ (43.9)

The Commission only records a provision for the employer portion of the surplus (deficit) attributable to the Commission. The employer portions are 63% for MEPP, 50% for PSPP and 100% for SRP. The respective employer portions are noted in the following table:

	March 31, 2012	March 31, 2011	April 1, 2010
Management Employees Pension Plan	$ (10.7)	$ (6.9)	$ (5.0)
Public Service Pension Plan	(29.5)	(19.5)	(18.0)
Supplementary Retirement Plan	(0.5)	(0.2)	0.1
Total	$ (40.7)	$ (26.6)	$ (22.9)

Risks arising from defined benefit plans

Economic risks
Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets.

Demographic risks
Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates, etc.

Multi-employer plan funding risk
In addition to economic and demographic risk factors, the Commission is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for and amount of pension and related benefits; and
- Performance of plan assets affected by investment policies set by the government.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

NOTE 12 GAMING AND LIQUOR OPERATING RESULTS
(in thousands)

Management monitors the operating results of the various revenue segments for the purpose of making decisions about resource allocation and performance assessment. Operating expenses are not allocated to the individual segments but are allocated between Provincial Lotteries Revenue and Liquor and Other Revenue as authorized by the *Gaming and Liquor Act.*

	2012					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 15,615,948	7,428,194	39,953	23,084,095	-	$ 23,084,095
Liquor Revenue	-	-	-	-	2,149,205	2,149,205
	15,615,948	7,428,194	39,953	23,084,095	2,149,205	25,233,300
Credits Won	(14,394,802)	(6,834,399)	(27,553)	(21,256,754)	-	(21,256,754)
Cost of Liquor Product					(1,440,444)	(1,440,444)
	(14,394,802)	(6,834,399)	(27,553)	(21,256,754)	(1,440,444)	(22,697,198)
	1,221,146	593,795	12,400	1,827,341	708,761	2,536,102
Commissions & Federal Payments	(363,718)	(94,222)	(3,975)	(461,915)	-	(461,915)
	$ 857,428	499,573	8,425	1,365,426	708,761	2,074,187
Operating Expenses				(156,744)	(20,744)	(177,488)
Profit from Operations for the Year				1,208,682	688,017	1,896,699
Other Revenue				-	13,262	13,262
Income from Western Canada Lottery Corporation				262,332	-	262,332
Net Operating Results				$ 1,471,014	$ 701,279	$ 2,172,293
Other Comprehensive Income (Expense)				-	(14,161)	(14,161)
Total Comprehensive Income				$ 1,471,014	$ 687,118	$ 2,158,132

*(a) includes Keno Charity Commissions

	2011					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 14,610,556	7,365,313	38,209	22,014,078	-	$ 22,014,078
Liquor Revenue	-	-	-	-	2,033,482	2,033,482
	14,610,556	7,365,313	38,209	22,014,078	2,033,482	24,047,560
Credits Won	(13,458,398)	(6,779,822)	(26,557)	(20,264,777)	-	(20,264,777)
Cost of Liquor Product	-	-	-	-	(1,344,426)	(1,344,426)
	(13,458,398)	(6,779,822)	(26,557)	(20,264,777)	(1,344,426)	(21,609,203)
	1,152,158	585,491	11,652	1,749,301	689,056	2,438,357
Commissions & Federal Payments	(343,148)	(92,757)	(3,743)	(439,648)	-	(439,648)
	$ 809,010	492,734	7,909	1,309,653	689,056	1,998,709
Operating Expenses				(152,956)	(19,522)	(172,478)
Profit from Operations for the Year				1,156,697	669,534	1,826,231
Other Revenue				-	13,888	13,888
Income from Western Canada Lottery Corporation				283,980	-	283,980
Net Operating Results				$ 1,440,677	$ 683,422	$ 2,124,099
Other Comprehensive Income (Expense)				-	(3,647)	(3,647)
Total Comprehensive Income				$ 1,440,677	$ 679,775	$ 2,120,452

*(a) includes Keno Charity Commissions

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 13 COMMISSIONS AND FEDERAL PAYMENTS
(in thousands)

	2012			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 179,755	$ 89,004	$ 1,860	$ 270,619
Charities	173,036	-	1,936	174,972
Federal Tax Expense (b)	10,927	5,218	179	16,324
	$ 363,718	$ 94,222	$ 3,975	$ 461,915

	2011			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 169,717	$ 87,758	$ 1,748	$ 259,223
Charities	162,984	-	1,822	164,806
Federal Tax Expense (b)	10,447	4,999	173	15,619
	$ 343,148	$ 92,757	$ 3,743	$ 439,648

*(a) includes Keno Charity Commissions

*(b) as prescribed by the Games of Chance (GST/HST) Regulations, taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on gaming terminal, video lottery terminal and electronic bingo sales based on a prescribed formula. This tax is in addition to the GST paid on the purchase of goods and services for which a credit is not allowed under the formula.

NOTE 14 OPERATING EXPENSES
(in thousands)

	2012	2011
Salaries and benefits	$ 70,993	$ 66,079
Amortization	42,734	47,619
Leased gaming terminals	26,532	25,054
Equipment and vehicles	13,012	11,211
Data communications	5,464	5,288
Fees and services	4,022	3,284
Data processing	3,839	3,088
Travel and training	2,696	2,222
Property	2,625	2,219
Stationery and supplies	1,652	1,845
Freight and ticket product delivery	1,693	1,583
Miscellaneous	785	819
Insurance and bank charges	784	1,402
Retailer relations	544	657
Liquor product expense	113	108
	$ 177,488	$ 172,478

NOTE 15 OTHER REVENUE
(in thousands)

		2012		2011
Licences	$	6,297	$	6,131
Interest revenue		3,713		3,266
Premises rental revenue		2,385		2,382
Miscellaneous		1,874		1,612
Liquor levies		1,825		1,608
Retailer service fees		693		660
Fines and violations		282		329
Loss on disposal of property, plant and equipment		(3,807)		(2,100)
	$	13,262	$	13,888

NOTE 16 INVESTMENT IN WESTERN CANADA LOTTERY CORPORATION (WCLC)
(in thousands)

The Commission's interest in the WCLC is based upon Alberta's share of lottery ticket sales.

The WCLC is a private entity that is not listed on any public exchange. The following table illustrates summarized financial information of the Commission's investment in the WCLC.

		2012		2011
Balance Sheet				
Current Assets	$	78,949	$	80,265
Capital and Intangible Assets		26,777		28,009
	$	105,726	$	108,274
Current Liabilities	$	61,863	$	67,819
Due to Provincial Governments		55,139		49,068
Equity		(11,276)		(8,613)
	$	105,726	$	108,274
Statement of Operations				
Ticket Lottery Revenue (a)	$	744,218	$	796,190
Ticket Lottery Prizes (a)		(380,858)		(409,176)
Gaming Revenue		363,360		387,014
Commissions (a)		(51,840)		(56,254)
Federal Tax Expense (a)		(4,237)		(4,232)
Payment to Federal Government (b)		(7,826)		(7,570)
		299,457		318,958
Operating Expenses		(37,125)		(34,978)
Net Operating Results	$	262,332	$	283,980

Financial Information

(a) On-line ticket lottery revenues are recognized at the date of the draw, with instant ticket revenues being recognized at the date activated for sale by the retailer. Prizes, commissions and federal payments related to ticket revenues are recognized on the same basis as related revenues.

(b) A payment is made to the federal government which represents the Province of Alberta's share resulting from an agreement between the provincial governments and the federal government on the withdrawal of the federal government from the lottery field. The payment is made by WCLC on behalf of Alberta and is based on current population statistics and its share of ticket lottery sales.

Statement of Change in Investment in WCLC

	2012	2011
Investment in WCLC, beginning of year	$ 28,782	$ 25,387
Net Operating Results recorded in AGLC	262,332	283,980
Interest Revenue recorded in Alberta Lottery Fund	1,045	811
WCLC Net Income Allocated to Alberta	263,377	284,791
Advances received from WCLC	(256,661)	(281,396)
Investment in WCLC, end of year	$ 35,498	$ 28,782

NOTE 17 COMMITMENTS
(in thousands)

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

	2012	2011
Obligations under operating leases and contracts		
Premise Leases and other contracts	$ 5,660	$ 3,980
Former Retail Liquor Stores	1,807	2,651
Video Lottery Terminal replacement initiative	162,680	-
	$ 170,147	$ 6,631

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

2012-13	$ 145,673
2013-14	9,444
2014-15	4,356
2015-16	4,262
2016-17	3,982
Thereafter	2,430
	$ 170,147

The Commission has lease obligations for former retail liquor stores, most of which have been subleased to third parties. Provision for loss on leased properties of $1.94 million (2011 - $2.19 million) has been made where the payments to be received on the sub-leases are less that the lease payments to be made. Estimated receipts for each of the five years and thereafter are as follows:

2012-13	$	540
2013-14		163
2014-15		82
2015-16		82
2016-17		82
Thereafter		611
	$	1,560

NOTE 18 CONTINGENT LIABILITIES AND PROVISIONS
(in thousands)

Contingent Liabilities are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty.

The Commission is a defendant in several legal claims. Management has assessed these claims as at March 31, 2012 and determined, due to the nature of the claims, none of the claims will be provided for in our accounts or disclosed in these notes. Any additional liabilities that may arise from the legal claims not provided for in our accounts or disclosed in these notes as they are remote and are not expected to have material adverse effect in the financial position or operations of the Commission. As at March 31, 2011 one claim was provided for in our accounts in the amount of $0.3 million.

The Commission amended a lease agreement with a tenant on March 28, 2012. Under the terms of the amended agreement, the Commission has agreed to pay for certain capital investments and would assume certain third party premise leases for the remainder of the lease term if a significant change in the terms of the tenant's appointment occurs before December 31, 2015. As of March 31, 2012, the Commission's potential liability is $11.9 million (2011 - $1.08 million).

Provisions are recognized as liabilities because they are present obligations and it is probable that an outflow of resources will be required to settle the obligation.

A provision for loss on leased properties has been recorded on onerous lease contracts on former retail liquor store operations that could not be terminated by the Commission at the time of liquor privatization in 1993. The provision is determined based on the difference between the aggregate estimated sublease revenue and the total lease obligations. As at March 31, 2012 there were 9 leases (2011 – 9 leases) that make up the provision.

		Lease Provision
As at April 1, 2010	$	2,431
Amounts used against the Provision		(242)
As at March 31, 2011		2,189
Amounts used against the Provision		(246)
As at March 31, 2012	$	1,943
Expected Outflow of Resources		
Within one year	$	247
After one year but not more than five years		300
After five years		1,396
	$	1,943

NOTE 19 FUNDS UNDER ADMINISTRATION
(in thousands)

The Commission manages the collection, investment and distribution of the charities' share of proceeds/losses from table games at licensed charitable casino events.

The share of proceeds/losses from these table games allocated to charities is established in policy and by agreement between the participating charity and the relevant casino operator. These allocations are collected by the Commission and pooled by casino or region over a three month period. The pooled funds earn interest and the Commission deducts administrative fees from the pools. The net proceeds in each pool at the end of the pooling period are distributed equally to each charity holding a licensed charitable casino event in the casino/region during the pooling period.

		2012		**2011**
Charitable Proceeds	$	14,575	$	12,789
Held Charitable Proceeds		159		75
Returned Funds		35		-
	$	14,769	$	12,864

NOTE 20 SALARIES AND BENEFITS
(in thousands)

	2012				2011
	Base Salary (a)	Other Cash Benefits (b)	Other Non-cash Benefits (c)	Total	Total
Board					
Chairperson	$ 89	$ -	$ -	$ 89	$ 93
Board Members	246	-	-	246	272
Executive Team					
Chief Executive Officer (d)	264	3	76	343	320
Management					
Executive Director, Gaming Products and Services	185	21	52	258	234
Chief Financial Officer	185	5	52	242	219
Chief Information Officer (e)	178	20	49	247	228
Executive Director, Regulatory	174	5	9	188	225
Executive Director, Corporate Strategy and Social Responsibility	175	2	48	225	194
Executive Director, Human Resources	151	5	39	195	190
Director, Communications (f)	41	8	10	59	147

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

(a) Base salary includes regular base pay.
(b) Other cash benefits include vacation payouts and lump sum payouts. There were no bonuses paid in 2012.
(c) Other non-cash benefits include the Commission's share of all employee benefits and contributions or payments made on behalf of employees including pension and supplementary retirement plans, health care, dental coverage, group life insurance, and short and long term disability plans.
(d) Automobile provided; taxable benefit amount of $7 (2011 - $8) is not included in other non-cash benefits.
(e) The position was occupied by 2 individuals during the year.
(f) Effective October 2011, this position was filled by a secondment from Government of Alberta Public Affairs Bureau.

NOTE 21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values of the Commission's financial instruments approximate their fair values unless otherwise noted.

The Commission is exposed to various risks related to its financial assets and liabilities. These risk exposures are managed on an ongoing basis.

Credit risk represents the loss that would be recognized if parties holding financial assets of the Commission fail to honour their obligations. Credit risk is minimized as the Commission does not have significant exposure to any individual retail entity.

Liquidity risk is the risk the Commission will not be able to meet its financial obligations as they fall due. The majority of the Commission's operational activities involve cash sales and short term accounts receivables. The Commission relies on funds generated from its operations to meet operating requirements and to finance capital investment.

NOTE 22 RELATED PARTY TRANSACTIONS
(in thousands)

The Commission is a wholly-owned entity of the Government of Alberta. The Government significantly influences the Commission.

The Commission reports to the President of Treasury Board and Minister of Finance. Any department or entity the Minister is responsible for is a deemed related party to the Commission. These include:

- Department of Treasury Board and Finance, including Risk Management and Insurance
- Alberta Lottery Fund
- General Revenue Fund

The Commission made payments totalling $321 (2011 - $338) to Risk Management and Insurance. Transactions with the Alberta Lottery Fund are disclosed in Note 9 and transactions with the General Revenue Fund are disclosed in Note 10.

The Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 3, is also a deemed related party to the Commission. Details of transactions with WCLC are disclosed in Note 16. In addition, the Commission received $693 (2011 - $660) in retailer service fees from WCLC.

The Board members of the Commission, executive management and their close family members are deemed to be related parties to the Commission. Transactions with close family members are immaterial; compensation for Board members and executive management is disclosed in Note 20.

NOTE 23 APPROVED BUDGET
(in thousands)

The Commission includes its annual budget, on a summarized basis, in its business plan. The summarized budget receives approval by the Minister the Commission reports to on recommendation from the Commission Board and becomes part of the fiscal plan of the Government of Alberta.

	2012
Liquor Revenue	$ 2,167,787
Liquor Cost of Sales	(1,436,778)
	$ 731,009
Gaming Revenue	1,850,954
	$ 2,581,963
Commissions and Federal Payments (a)	(473,288)
Operating Expenses	(240,016)
Profit from Operations for the Year	$ 1,868,659
Other Revenue	15,107
Income from Western Canada Lottery Corporation	222,933
Net Operating Results	$ 2,106,699

(a) Includes Keno Charity Commissions

Financial Information

ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2012

These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2012 Annual Report. A complete copy of the ATB Financial Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ATB Financial website at www.atb.com.

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011, in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 30, 2012
Edmonton, Alberta

Consolidated Statements of Financial Position

As at *($ in thousands)*		**March 31** **2012**		March 31 2011		April 1 2010
Assets						
Cash resources						
Cash (*note 8*)	$	**247,706**	$	210,385	$	219,607
Interest-bearing deposits with financial institutions (*note 8*)		**869,939**		1,123,779		675,576
		1,117,645		1,334,164		895,183
Securities						
Securities measured at fair value through net income (*note 9*)		**1,912,517**		1,959,658		940,334
Securities available for sale (*note 9*)		**2,200**		3,453		490,676
		1,914,717		1,963,111		1,431,010
Securities purchased under reverse repurchase agreements		**99,997**		-		-
Loans *(note 10)*						
Residential mortgages		**10,228,015**		9,920,694		9,433,787
Business		**10,420,960**		9,134,397		8,717,809
Personal		**5,562,053**		5,589,507		5,446,028
Credit card		**604,887**		624,539		606,724
		26,815,915		25,269,137		24,204,348
Allowance for credit losses (*note 11*)		**(107,102)**		(112,485)		(83,600)
		26,708,813		25,156,652		24,120,748
Other assets						
Derivative financial instruments (*note 19*)		**324,358**		271,886		226,509
Property and equipment (*note 12*)		**255,801**		235,994		247,107
Software and other intangibles (*note 13*)		**312,867**		297,008		201,767
Other assets (*note 14*)		**285,542**		244,882		189,480
		1,178,568		1,049,770		864,863
Total assets	$	**31,019,740**	$	29,503,697	$	27,311,804
Liabilities and equity						
Liabilities						
Deposits *(note 15)*						
Personal	$	**10,785,376**	$	10,576,800	$	10,429,248
Business and other		**11,486,666**		10,422,053		9,544,040
		22,272,042		20,998,853		19,973,288
Other liabilities						
Wholesale borrowings		**2,780,740**		3,000,155		2,607,994
Collateralized borrowings (*note 27*)		**2,651,217**		2,447,580		1,870,396
Derivative financial instruments (*note 19*)		**259,848**		254,411		146,892
Other liabilities (*note 16*)		**643,267**		649,764		702,008
		6,335,072		6,351,910		5,327,290
Capital investment notes (*note 26*)		**237,701**		230,972		224,994
Subordinated debentures (*note 17*)		**113,362**		67,467		45,176
Total liabilities		**28,958,177**		27,649,202		25,570,748
Equity						
Retained earnings		**2,079,985**		1,884,877		1,711,972
Accumulated other comprehensive income (loss)		**(18,422)**		(30,382)		29,084
Total equity		**2,061,563**		1,854,495		1,741,056
Total liabilities and equity	$	**31,019,740**	$	29,503,697	$	27,311,804

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

Approved by the Board:

[Original signed by]
Brian Hesje
Chairman of the Board

[Original signed by]
Doug Baker
Chairman of the Audit Committee

Financial Information

Consolidated Statements of Income

For the years ended March 31 *($ in thousands)*		**2012**		2011
Interest income				
Loans	**$**	**1,195,928**	$	1,145,681
Interest-bearing deposits with financial institutions		**8,943**		11,040
Securities measured at fair value through net income		**32,921**		23,780
		1,237,792		1,180,501
Interest expense				
Deposits		**261,236**		258,001
Wholesale borrowings		**71,450**		75,149
Collateralized borrowings		**75,922**		64,926
Capital investment notes		**9,938**		9,682
Subordinated debentures		**3,871**		2,537
		422,417		410,295
Net interest income		**815,375**		770,206
Other income				
Service charges		**70,160**		68,835
Investor Services		**60,748**		51,356
Card fees		**52,212**		51,809
Credit fees		**21,003**		22,136
Insurance		**19,027**		14,647
Foreign exchange		**4,876**		8,406
Net gains on derivative financial instruments		**7,185**		2,437
Net gains on financial instruments at fair value through net income		**64,507**		29,542
Sundry		**5,165**		1,958
		304,883		251,126
Operating revenue		**1,120,258**		1,021,332
Provision for credit losses ***(note 11)***		**23,255**		61,856
Non-interest expenses				
Salaries and employee benefits *(notes 18 and 21)*		**429,167**		378,515
Data processing		**115,116**		76,211
Premises and occupancy, including amortization		**75,392**		75,667
Professional and consulting costs		**43,730**		43,640
Deposit guarantee fee		**26,656**		24,530
Equipment, including amortization		**24,813**		23,729
Software and other intangibles amortization		**32,770**		22,460
General and administrative		**62,731**		53,277
ATB agencies		**8,605**		8,218
Other		**24,636**		21,026
		843,616		727,273
Net income before payment in lieu of tax		**253,387**		232,203
Payment in lieu of tax *(note 25)*		**58,279**		59,298
Net income	**$**	**195,108**	$	172,905

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

Consolidated Statements of Comprehensive Income

For the years ended March 31 *($ in thousands)*		2012		2011
Net income	**$**	**195,108**	$	172,905
Other comprehensive income (loss)				
Unrealized net gains (losses) on financial assets available for sale:				
Unrealized net gains (losses) arising during the period		**182**		(20)
Unrealized net gains (losses) on derivative financial instruments designated as cash flow hedges:				
Unrealized net gains (losses) arising during the period		**95,516**		(20,681)
Net gains reclassified to net income		**(25,363)**		(22,959)
Net actuarial losses on employee benefits		**(58,375)**		(15,806)
Other comprehensive income (loss)		**11,960**		(59,466)
Comprehensive income	**$**	**207,068**	$	113,439

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

Consolidated Statements of Changes in Equity

For the years ended March 31 *($ in thousands)*		2012		2011
Retained earnings				
Balance at beginning of the year	**$**	**1,884,877**	$	1,711,972
Net income		**195,108**		172,905
Balance at end of the year		**2,079,985**		1,884,877
Accumulated other comprehensive loss				
Available-for-sale financial assets				
Balance at beginning of the year		**(367)**		(347)
Other comprehensive income (loss)		**182**		(20)
Balance at end of the year		**(185)**		(367)
Derivative financial instruments designated as cash flow hedges				
Balance at beginning of the year		**(14,209)**		29,431
Other comprehensive income (loss)		**70,153**		(43,640)
Balance at end of the year		**55,944**		(14,209)
Employee benefits – actuarial losses				
Balance at beginning of the year		**(15,806)**		-
Other comprehensive loss		**(58,375)**		(15,806)
Balance at end of the year		**(74,181)**		(15,806)
Accumulated other comprehensive loss		**(18,422)**		(30,382)
Equity	**$**	**2,061,563**	$	1,854,495

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

Financial Information

Consolidated Statements of Cash Flows

For the years ended March 31 *($ in thousands)*		2012		2011
Net income	$	**195,108**	$	172,905
Cash flows from operating activities				
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision for credit losses		**23,255**		61,856
Depreciation and amortization		**75,868**		71,002
Net gains on financial instruments at fair value through net income		**(64,507)**		(29,542)
Income adjusted for non-cash charges, credits, and other items		**229,724**		276,221
Adjustments for net change in operating assets and liabilities:				
Loans		**(1,615,414)**		(1,101,950)
Deposits		**1,279,317**		1,027,919
Derivative financial instruments		**23,116**		18,502
Interest-bearing deposits with financial institutions		**253,860**		(448,219)
Prepayments and other receivables		**(5,486)**		(43,224)
Due to clients, brokers, and dealers		**3,454**		(2,862)
Deposit guarantee fee payable		**1,157**		1,793
Accounts payable and accrued liabilities		**(32,154)**		(59,843)
Liability for payment in lieu of tax		**(1,019)**		21,223
Net interest receivable and payable		**(50,764)**		(9,590)
Change in accrued pension-benefit liability		**44,253**		(7,310)
Others, net		**42,046**		14,054
Net cash provided by (used in) operating activities		**172,090**		(313,286)
Cash flows from investing activities:				
Purchase of securities measured at fair value through net income		**(4,728,190)**		(4,382,454)
Proceeds from securities measured at fair value through net income		**4,776,128**		3,851,626
Change in securities purchased under reverse repurchase agreements		**(99,997)**		-
Purchases of property and equipment, software, and other intangibles		**(111,534)**		(155,130)
Net cash used in investing activities		**(163,593)**		(685,958)
Cash flows from financing activities:				
Change in wholesale borrowings		**(219,416)**		392,161
Change in capital investment notes		**(1,292)**		(1,614)
Change in collateralized borrowings		**203,637**		577,184
Issuance of subordinated debentures		**45,895**		22,291
Net cash provided by financing activities		**28,824**		990,022
Net increase (decrease) in cash		**37,321**		(9,222)
Cash at beginning of period		**210,385**		219,607
Cash at end of period	$	**247,706**	$	210,385
Net cash provided by (used in) operating activities includes:				
Interest paid	$	**(444,603)**	$	(415,652)
Interest received	$	**1,201,195**	$	1,170,407

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

Notes to the Consolidated Financial Statements

For the years ended March 31

($ in thousands)

1. Nature of Operations

Alberta Treasury Branches (ATB) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Treasury Branches Act* (the *ATB Act*), Revised Statutes of Alberta, 2000, chapter A-37. Under the *ATB Act*, ATB was established as a provincial Crown corporation governed by a Board of Directors appointed by the Lieutenant-Governor in Council. The address of the head office is 9888 Jasper Avenue, Edmonton, Alberta, Canada.

ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge (refer to note 25). ATB is an Alberta- based financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management, and investment management services.

2. Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are ATB's first IFRS consolidated financial statements, and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. These consolidated financial statements were approved by the Board of Directors on May 30, 2012.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of ATB is provided in note 4.

The 2011 comparative figures presented in these consolidated financial statements have been restated to take into account these new standards. These statements should be read in conjunction with the consolidated financial statements for the year ended March 31, 2011, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, and liabilities for cash-settled share-based payments, which have been measured at fair value.

The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

Consolidation

Subsidiaries

Subsidiaries are entities controlled by ATB. Control exists when ATB has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

These consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries, created for the purpose of offering investor services, were established by Order in Council and incorporated under the *Business Corporations Act* (Alberta):

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

Significant Accounting Judgments, Estimates, and Assumptions

In the process of applying ATB's accounting policies, management has exercised judgment and has made estimates in determining amounts recognized in the consolidated financial statements. The most significant judgments and estimates made include the allowance for credit losses, the fair value of financial instruments and assumptions underlying the accounting for employee benefit obligations. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The consolidated financial statements for the year ended March 31, 2012, provide additional information in the following notes:

- Note 2(c): Financial instruments – fair value
- Note 2(d): Impairment of financial assets – for establishing allowance for credit losses
- Note 9: Securities – for establishing fair value of ABCP notes
- Note 18: Employee benefits – description of assumptions used

Translation of Foreign Currencies

Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the 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.

b. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. ATB classifies financial assets as either financial assets at fair value through net income, loans and receivables, or held-to-maturity or available-for-sale financial assets. Financial liabilities are classified as either financial liabilities at fair value through net income or financial liabilities at amortized cost.

All financial assets and liabilities are initially recognized on the trade date. This is the date that ATB becomes a party to the contractual provisions of the instrument.

ATB derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. For funding transactions, all financial assets that cannot be derecognized continue to be held on ATB's consolidated statement of financial position, and a secured liability is recognized for the proceeds received. ATB derecognizes a financial liability when its contractual obligations are discharged or cancelled or has expired.

Financial Assets

Financial Assets at Fair Value Through Net Income

This category comprises two subcategories: financial assets held for trading and financial assets designated by ATB at fair value through net income upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are classified as financial assets held for trading unless they are designated and effective as hedging instruments.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the consolidated income statement. Gains and losses arising from changes in fair value are included directly in the consolidated income statement and are reported as net gains (losses) on financial instruments at fair value through net income. Interest income and expense on financial assets held for trading are included in net interest income. Interest accruals are recorded separately from fair value measurements. Changes in fair value are determined on a clean-price basis.

ATB designates certain financial assets upon initial recognition as financial assets at fair value through net income (fair value option). This designation cannot subsequently be changed. The fair value option is only applied when one of the following conditions are met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- The financial assets are part of a portfolio of financial instruments that is risk managed and reported to senior management on a fair value basis; or
- The financial asset contains one or more embedded derivatives that must be separated.

The fair value option is applied to certain interest-bearing deposits and securities that are part of a portfolio managed on a fair value basis. The fair value option is also applied to structured instruments that include embedded derivatives. Fair value changes relating to financial assets designated at fair value through net income are recognized in net gains (losses) on financial instruments at fair value through net income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that ATB intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through net income;
- Those that upon initial recognition ATB designates as available for sale; or
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value—which is the cash consideration to originate or purchase the loan including any transaction costs—and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the consolidated statement of financial position as loans. Interest on loans is included in the consolidated income statement and is reported as part of net interest income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the consolidated income statement as provision for credit losses.

Available-for-Sale Financial Assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through net income.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income, except for impairment losses and foreign-exchange gains and losses, until the financial asset is derecognized.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the consolidated income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the consolidated income statement.

Available-for-sale financial assets are reported in the consolidated statement of financial position as securities available for sale.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ATB's management has the intention and ability to hold to maturity.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Interest on held-to-maturity investments is included in the consolidated income statement as net interest income. In the case of an impairment, the impairment loss would be reported as a deduction from the carrying value of the investment and recognized in the consolidated income statement. ATB did not hold any instrument in this category at the reporting dates.

Financial Liabilities

Financial Liabilities at Fair Value Through Net Income

This category comprises two subcategories: financial liabilities held for trading and financial liabilities designated by ATB as at fair value through net income upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. These instruments are included in derivative financial instruments on the consolidated statement of financial position.

Financial liabilities classified as "designated as at fair value through net income" have been designated as such by ATB upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through net income upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that is managed and whose performance is evaluated on a fair value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and that would otherwise be separated from their host contract.

Gains and losses arising from changes in the fair value of financial liabilities classified as fair value through net income are included in the consolidated income statement and are reported as net gains (losses) on financial instruments at fair value through net income. Interest expenses on financial liabilities held for trading are included in net interest income. As at March 31, 2012, ATB does not have any financial liabilities classified as fair value through net income.

Other Liabilities Measured at Amortized Cost

Financial liabilities that are not classified as fair value through net income fall into this category and are measured at amortized cost. Interest expense is recognized using the effective interest method in net interest expense. Financial liabilities measured at amortized cost are deposits, capital investment notes, wholesale borrowings, subordinated debentures, collateralized borrowings, and other liabilities.

c. Financial Instruments – Fair Value

Financial assets and financial liabilities can be measured at fair value or amortized cost, depending on their classification.

Estimated Fair Value

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

When financial instruments are subsequently remeasured, quoted market prices in an active market provide the best evidence of fair value, and when such prices are available, ATB uses them to measure financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's-length basis. The fair value of a financial asset traded in an active market generally reflects the bid price, and that of a financial liability traded in an active market generally reflects the ask price. If the market for a financial instrument is not active, ATB establishes fair value using a valuation technique that primarily makes use of observable market inputs. Such valuation techniques include the use of available information concerning recent market transactions, reference to the current fair value of a comparable financial instrument, discounted cash flow analysis, option pricing models, and all other valuation techniques that are commonly used by market participants and that have been demonstrated to provide reliable estimates.

In cases where the fair value is established using valuation models, ATB makes assumptions about the amount, the timing of estimated future cash flows, and the discount rates used. These assumptions are based primarily on observable market inputs such as interest rate yield curves, foreign-exchange rates, credit curves, and price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is established primarily on the basis of internal estimates and data, taking into account the valuation policies in effect at ATB, the economic environment, the specific characteristics of the financial asset or liability, and other relevant factors.

The fair values are estimated at the balance sheet date using the valuation methods and assumptions described below.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, securities purchased under reverse repurchase agreements, other assets, and other liabilities.

Securities and Interest-Bearing Deposits With Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

Derivative Instruments

Fair value of over-the-counter and embedded derivative financial instruments is estimated using pricing models that take into account current market and contractual prices of the underlying instruments, and time value and yield curve or volatility factors underlying the positions.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates reprice to market when market rates change. For fixed-rate loans, fair value is estimated by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is estimated by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and measurement uncertainty, the fair value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

Wholesale Borrowings, Collateralized Borrowings, Subordinated Debentures, and Capital Investment Notes

The fair values of wholesale borrowings, collateralized borrowings, subordinated debentures and capital investment notes is estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

d. Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

ATB assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events (a "loss event") that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that ATB uses to determine that there is objective evidence of an impairment loss include:

a. Significant financial difficulty of the issuer or obligor;
b. A breach of contract, such as a default or significant delinquency in interest or principal payments;
c. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d. It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
e. The disappearance of an active market for that financial asset because of financial difficulties; or
f. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   i. Adverse changes in the payment status of borrowers in the portfolio; and
   ii. National or local economic conditions that correlate with defaults on the assets in the portfolio.

For purposes of impairment assessments, two groups of assets are formed: those that are individually significant, and those that are individually insignificant. For individually significant assets, ATB determines whether objective evidence of impairment exists and, if found to be impaired, an individual assessment of impairment loss is made. For all other assets, a collective assessment of impairment loss is made; this includes both individually significant assets that are not impaired as well as all individually insignificant assets, whether impaired or not. As soon as objective evidence of impairment loss becomes available for individually significant assets, those assets are removed from the collective assessment group.

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account and the amount of the loss is included in the consolidated statement of income as a provision for credit losses.The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment (including individually significant assets for which no objective evidence of impairment exists, and individually insignificant assets), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the original effective rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income.

When a loan has been subjected to an individually assessed provision and it is determined that there is no likelihood of recovery, the loan is written off against the related allowance. Subsequent recoveries of written-off amounts are recorded in the consolidated statement of income as a reduction to the provision.

Assets Classified as Available for Sale

ATB assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

e. Securities Purchased Under Reverse Repurchase Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by ATB with a simultaneous agreement to sell them back at a specified price on a future date, which is generally short-term. The difference between the cost of the purchase and the predetermined proceeds to be received based on the repurchase agreement is recorded as securities interest income. Securities purchased under reverse repurchase agreements are fully collateralized, thus minimizing credit risk, and have been classified and measured at fair value through net income for financial instruments purposes.

Securities sold under repurchase agreements represent a sale of Government of Canada securities by ATB with a simultaneous agreement to buy them back at a specified price on a future date, which is generally short-term. The difference between the proceeds of the sale and the predetermined cost to be paid based on the repurchase agreement is recorded as deposit interest expense. No securities sold under repurchase agreements exist as at March 31, 2012.

f. Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, a currency exchange rate, the price of an equity or debt security, or an equity or commodity index.

ATB enters into various over-the-counter and exchange-traded derivatives in the normal course of business, including interest rate swaps, options and futures, equity and commodity options, and foreign-exchange and commodity forwards and futures. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers.

ATB's corporate derivative portfolio is not intended for speculative income generation but for asset/liability management purposes—that is, to manage ATB's interest-rate, foreign-exchange, and equity- and commodity-related exposures arising from its portfolio of investments and loan assets and deposit obligations.

ATB's client derivative portfolio is not used to generate trading income through active assumption of market risk, but rather is used to meet the risk management requirements of

ATB customers. ATB 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.

All derivative financial instruments, including embedded derivatives, are classified as designated at fair value through net income and measured at fair value on the consolidated statement of financial position. 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 (OCI).

Hedge Accounting

Hedge accounting is optional and allows recognition of the effective component of a hedging derivative in net income at the same time as the hedged item, thus reducing income volatility. The change in fair value attributable to any ineffective component of a hedging derivative is recognized as "gains or losses on derivative financial instruments" in other income during the period of ineffectiveness.

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair value hedge.

ATB discontinues hedge accounting when:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- The derivative expires, or is sold, terminated, or exercised;
- The hedged item matures or is sold or repaid; or
- A forecast transaction is no longer deemed highly probable.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the consolidated statement of income.

Fair Value Hedge

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the consolidated statement of income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortized to the consolidated statement of income over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income.

Cash Flow Hedge

ATB's derivative instruments in cash flow hedges are intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to the variability of cash flows from certain loans. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in OCI, and the ineffective portion in net income. Any such amounts recognized in OCI are reclassified from OCI into net income in the same period that the underlying hedged item affects net income.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Embedded derivatives with economic characteristics and risks considered not closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument with the same terms would qualify as a derivative and if the host contract is not already measured at fair value. ATB has identified embedded derivatives within certain extendible loan contracts and within all equity-linked and commodity-linked deposit contracts. Any such embedded derivatives are not considered closely related to the host contract and have been accounted for separately as derivative assets or liabilities.

g. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are depreciated on a straight-line basis over their estimated useful lives. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of the assets' useful economic life. Property and equipment acquired under a finance lease are capitalized, and the depreciation period for a finance lease corresponds to the lesser of the useful life or lease term plus the first renewal option, if applicable. No depreciation is calculated on property and equipment under construction or development until the assets are available for use. The estimated useful life for each asset class is as follows:

- Buildings – up to 20 years
- Buildings under finance lease – up to 15 years
- Computer equipment – 3 years
- Other equipment – 5 years
- Leasehold improvements – lease term plus first renewal period, to a maximum of 10 years

Depreciation rates, methods, and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to take account of any change in circumstances. Gains and losses on the disposal of property and equipment are recorded in the consolidated statement of income in the year of disposal.

h. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software and other intangibles is 3 to 5 years, with certain software having a useful life of 15 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATB and that the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with an internally developed software project.

i. Impairment of Property and Equipment and Software and Other Intangibles

Property and equipment and software and other intangibles in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

j. Finance and Operating Leases

Leases of assets where ATB has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets held under finance leases are initially recognized on the consolidated statement of financial position at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities in the consolidated statement of financial position. The discount rate used in calculating the present value of the minimum lease payments is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property. Lease incentives are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

k. Employee Benefits

ATB provides benefits to current and past employees through a combination of defined benefit (DB) and defined contribution (DC) plans.

ATB's current non-management employees participate in the Public Service Pension Plan (PSPP) with other Alberta public-sector employees. The PSPP is a DB pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or DC provisions. ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees.

All expenses related to employee benefits are recorded in the consolidated statement of income as salaries and employee benefits in non-interest expenses.

The cost of the DB plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The PSPP and the DB portion of the ATB Plan, SRP, and OPEB obligations provide employee benefits based on members' years of service and highest average salary.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the consolidated statement of financial position less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses are recognized in OCI. Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Accounting for Defined Contribution Plans

Contributions are expensed as they become due and are recorded in salaries and employee benefits in the consolidated statement of income.

Plan Valuations, Asset Allocation, and Funding

ATB measures its accrued benefit obligations and the fair values of plan assets for accounting purposes as at March 31 each year for the PSPP, ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due. The most recent actuarial valuation of the DB provisions of the ATB Plan was performed as at December 31, 2011. The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. (Refer to note 16.)

l. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ATB, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

m. Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

n. Securitization

As part of its liquidity strategy, ATB participates in the Canada Mortgage Bond (CMB) program. Under this program, ATB bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (NHA MBSs) and transfers them to the Canada Housing Trust. ATB retains substantially all the risks and rewards related to these securities, specifically prepayment and reinvestment risks. Consequently, the loans are not derecognized and continue to be recognized in the consolidated statement of financial position. ATB recognizes a liability for the consideration received upon the sale of NHA MBSs that do not meet the derecognition criteria. This liability is presented under collateralized borrowing in the consolidated statement of financial position.

o. Segmented Information

A segment is a distinguishable component of ATB that is engaged in providing products or services (business segment) that is subject to risks and returns that are different from those of other business or segments. The Corporate Management Committee regularly reviews operating activity by business segments. All transactions between business segments are conducted on an arm's-length basis, with intra-segment revenue and costs being eliminated in strategic service units. Income and expenses directly associated with each segment are included in determining business segment performance.

p. Revenue Recognition

Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments are recognized in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ATB estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and Commission Income and Expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, card fees, commitment fees, and placement fees, are recognized as the related services are performed. Where ATB is the lead in a syndication, loan syndication fees are recognized in fees and commission income, unless the yield on any loans retained is less than that of the other lenders involved in the financing, in which case an appropriate portion of the syndication fee is recorded as interest income over the term of the loan. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3. Future Accounting Changes

IFRS 7, Financial Instruments: Disclosures

On October 7, 2010, IASB issued amendments to IFRS 7, Financial Instruments: Disclosures, which expand disclosure requirements with respect to the derecognition of financial asset transfer transactions. ATB is currently assessing the new disclosure requirements, which must be applied prospectively for annual periods ending after December 31, 2012.

IFRS 9, Financial Instruments – Phase 1

The IASB issued on November 12, 2009, and amended on October 28, 2010, is the first phase of a project that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard defines a new way to classify and measure financial assets and liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss, and fair value through equity) based on the entity's business model to manage its financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified.

Impairment of financial asset methodology, offsetting of financial assets and liabilities, and hedging activities will be covered in future phases that will complete IFRS 9.

On December 16, 2011, the IASB issued amendments to IFRS 9, Financial Instruments, that defer the mandatory effective date from January 1, 2013, to January 1, 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date. The amendments also provide relief from the requirements to restate comparative financial statements for the effect of applying IFRS 9, although additional transitional disclosures will be required. Earlier application of the standard is permitted.

ATB is currently assessing the impact of the adoption of IFRS 9; however, since the impact of the adoption depends on the financial instruments held by ATB on the date of adoption, ATB cannot quantify it.

IFRS 10, Consolidated Financial Statements

On May 12, 2011, the IASB issued IFRS 10, Consolidated Financial Statements. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 includes a new definition of control that determines which entities are consolidated. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation – Special Purpose Entities.

ATB is currently assessing the presentation and preparation requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IFRS 12, Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities. This new standard establishes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. ATB is currently assessing these disclosure requirements, which must be applied prospectively for annual periods beginning on or after January 1, 2013.

IFRS 13, Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS.

ATB is currently assessing the fair value measurement requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IAS 1, Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which improves the presentation of items of other comprehensive income. The amendments require the presentation by nature of items of other comprehensive income by distinguishing those that will not be reclassified to the statement of income in a subsequent period from those that will. ATB is currently assessing the impact of the adoption of this new standard. The revised standard is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. ATB will therefore apply these amendments to the year beginning April 1, 2013.

IAS 19, Employee Benefits

On June 16, 2011, the IASB issued an amended version of IAS 19, Employee Benefits, to eliminate the option to defer the recognition of gains and losses, known as the "corridor method." All actuarial gains and losses will now be recognized in other comprehensive income. The presentation of changes in assets and liabilities arising from defined benefit plans will be streamlined, and disclosure requirements for defined benefit plans will be enhanced. ATB is currently assessing the impact of the adoption of this new standard. The revised standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. ATB will therefore apply these amendments to the year beginning April 1, 2013.

IAS 32, Financial Instruments Presentation

In December 2011, the IASB issued amendments to IAS 32, Financial Instruments: Presentation, to clarify the criteria for offsetting a financial asset and a financial liability. ATB is currently assessing the impact of the amendments which are effective for annual periods beginning on or after January 1, 2014.

4. Impact of IFRS Adoption

ATB has adopted IFRS effective April 1, 2010 (ATB's date of transition). Prior to adopting IFRS, ATB prepared its consolidated financial statements in accordance with Canadian GAAP.

a. Elected Exemptions From Full Retrospective Application

In preparing these consolidated financial statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards (IFRS 1), ATB has applied one of the optional exemptions from full retrospective application of IFRS. The optional exemption applied is described below.

Employee Benefits

ATB has elected to recognize all cumulative actuarial gains and losses as at April 1, 2010, in opening retained earnings for ATB's employee benefit plans.

b. Mandatory Exceptions to Retrospective Application

In preparing these consolidated financial statements in accordance with IFRS 1, ATB has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

Hedge Accounting

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in ATB's results under IFRS. Any derivatives not meeting the IAS 39, Financial Instruments: Recognition and Measurement, criteria for hedge accounting were recorded as non-hedging derivative financial instruments.

Estimates

Hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by ATB under Canadian GAAP are consistent with their application under IFRS.

c. Reconciliation of Consolidated Statements of Financial Position as Previously Reported Under Canadian GAAP to IFRS

As at March 31, 2011 *($ in thousands)*	Canadian GAAP[(1)]	IFRS adjustments Allowance for credit losses	Securitization of receivables	Employee benefits	Leases	Other	IFRS
Assets							
Cash	$ 161,901	$ -	$ -	$ -	$ -	$ 48,484	$ 210,385
Interest-bearing deposits with financial institutions	1,123,779	-	-	-	-	-	1,123,779
Securities	2,058,878	-	(101,085)	-	-	5,318	1,963,111
Loans	22,943,184	113,519	2,093,949	-	-	6,000	25,156,652
Other assets	1,100,321	-	21,707	(51,385)	52,114	(72,987)	1,049,770
Total assets	$ 27,388,063	$ 113,519	$ 2,014,571	$ (51,385)	$ 52,114	$ (13,185)	$ 29,503,697
Liabilities and equity							
Deposits	$ 23,982,145	$ -	$ -	$ -	$ -	$ (2,983,292)	$ 20,998,853
Other liabilities	1,143,766	-	2,065,059	102,403	70,575	2,970,107	6,351,910
Capital investment notes	230,972	-	-	-	-	-	230,972
Subordinated debentures	67,467	-	-	-	-	-	67,467
Equity	1,963,713	113,519	(50,488)	(153,788)	(18,461)	-	1,854,495
Total liabilities and equity	$ 27,388,063	$ 113,519	$ 2,014,571	$ (51,385)	$ 52,114	$ (13,185)	$ 29,503,697

(1) Per March 31, 2011, audited annual financial statements.

As at April 1, 2010 *($ in thousands)*	Canadian GAAP[(1)]	IFRS adjustments Allowance for credit losses	Securitization of receivables	Employee benefits	Leases	Other	IFRS
Assets							
Cash	$ 179,424	$ -	$ -	$ -	$ -	$ 40,183	$ 219,607
Interest-bearing deposits with financial institutions	675,576	-	-	-	-	-	675,576
Securities	1,158,900	-	200,445	-	-	71,665	1,431,010
Loans	22,534,603	138,813	1,442,893	-	-	4,439	24,120,748
Other assets	880,515	-	16,653	(33,419)	58,276	(57,162)	864,863
Total assets	$ 25,429,018	$ 138,813	$ 1,659,991	$ (33,419)	$ 58,276	$ 59,125	$ 27,311,804
Liabilities and equity							
Deposits	$ 22,579,167	$ -	$ -	$ -	$ -	$ (2,605,879)	$ 19,973,288
Other liabilities	770,324	-	1,705,364	110,925	75,673	2,665,004	5,327,290
Capital investment notes	224,994	-	-	-	-	-	224,994
Subordinated debentures	45,176	-	-	-	-	-	45,176
Equity	1,809,357	138,813	(45,373)	(144,344)	(17,397)	-	1,741,056
Total liabilities and equity	$ 25,429,018	$ 138,813	$ 1,659,991	$ (33,419)	$ 58,276	$ 59,125	$ 27,311,804

(1) Per March 31, 2010, audited annual financial statements.

d. Reconciliation of Net Income, Comprehensive Income, and Equity as Previously Reported Under Canadian GAAP to IFRS

Net Income and Comprehensive Income

($ in thousands)	Explanatory notes		Year ended March 31, 2011
Comprehensive income as reported under Canadian GAAP		$	154,356
Net income as reported under Canadian GAAP			198,516
IFRS adjustments increase (decrease):			
Provision for credit losses	(i)		(25,294)
Securitization of receivables	(ii)		(5,615)
Employee benefits	(iii)		6,362
Leases	(iv)		(1,064)
Net income as reported under IFRS			172,905
Other comprehensive loss as reported under Canadian GAAP			(44,160)
IFRS adjustments increase (decrease):			
Securitization of receivables	(ii)		500
Employee benefits	(iii)		(15,806)
Other comprehensive loss as reported under IFRS			(59,466)
Comprehensive income as reported under IFRS		$	113,439

Equity

As at *($ in thousands)*	Explanatory notes		March 31, 2011		April 1, 2010
Equity					
Equity as reported under Canadian GAAP		$	1,963,713	$	1,809,357
Retained earnings as reported under Canadian GAAP			1,975,739		1,777,223
IFRS adjustments increase (decrease):					
Provision for credit losses	(i)		113,519		138,813
Securitization of receivables	(ii)		(47,938)		(42,323)
Employee benefits	(iii)		(137,982)		(144,344)
Leases	(iv)		(18,461)		(17,397)
Retained earnings as reported under IFRS			1,884,877		1,711,972
Accumulated other comprehensive (loss) income as reported under Canadian GAAP			(12,026)		32,134
IFRS adjustments increase (decrease):					
Securitization of receivables	(ii)		(2,550)		(3,050)
Employee benefits	(iii)		(15,806)		-
Accumulated other comprehensive (loss) income as reported under IFRS			(30,382)		29,084
Equity as reported under IFRS		$	1,854,495	$	1,741,056

Explanatory Notes

i Provision for Credit Losses

As part of the transition to IFRS, ATB has modified its method for estimating the collective and individual allowance on loans (referred to as the general and specific allowance under Canadian GAAP). Under IFRS, impairment provisions are based on an incurred loss model. This model considers the total loan exposure, the loss identification period, the probability of default, and the loss given default. These items are adjusted for the risk rating and historical loss experience.

Impairment is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows. The expected cash flows should exclude future credit losses that have not been incurred and should be discounted at the financial asset's original effective interest rate. Changes in the allowance related to the passage of time are recognized as interest income, while those due to changes in expected cash flows are recognized through the provision expense.

ii Securitization of Receivables

ATB periodically securitizes residential mortgage loans by selling loans in the form of mortgage-backed securities (MBSs) through the CMB program. Under Canadian GAAP, the features of the transaction met the derecognition criteria; therefore, the transaction was accounted for as a sale with derecognition of the MBSs (and underlying mortgages) from the consolidated statement of financial position and the recognition of a gain or loss in the consolidated statement of income. Under IFRS, the terms of the transaction do not meet the derecognition criteria, therefore the transaction is accounted for as a collateralized borrowing with the underlying mortgages of the securitized MBS recognized on the consolidated statement of financial position and a liability recognized for the funding received with no recognition of gains or losses on transfer.

Under Canadian GAAP, ATB recognized a retained interest, deferred servicing revenues, and related income in respect of retained interests. Under IFRS, ATB continues to recognize a full interest in the underlying securitized mortgages and therefore does not recognize the retained interest, deferred servicing revenues, and related income.

The net effect of these securitization transactions on transition to IFRS is a decrease to Canadian GAAP equity, which represents the elimination on a retrospective basis of securitization gains and losses and servicing income realized under Canadian GAAP, less an adjustment for interest income and expense that would otherwise have been recognized under IFRS.

iii Employee Benefits

On transition to IFRS, ATB recognized all cumulative actuarial gains and losses for all defined benefit plans as an opening retained earnings adjustment in accordance with the transitional provisions of IFRS 1. This gave rise to a reduction in opening retained earnings at the transition date, which was principally made up of the cumulative actuarial gains and losses at April 1, 2010. Under IFRS, actuarial gains and losses subsequent to April 1, 2010, are recognized in OCI.

Under IFRS, ATB expenses the cost of past service benefits awarded to employees under post-employment benefit plans over the periods in which the benefits vest, which usually corresponds to the period in which the benefits are granted. Under Canadian GAAP, ATB expensed past service costs over the expected average remaining service period of participants in the plan. This gave rise to a reduction in opening retained earnings at the transition date, which was principally made up of the unamortized past service costs at April 1, 2010.

Under Canadian GAAP, ATB accounted for its participation in the Public Service Pension Plan as a defined contribution plan. Funding contributions were expensed as they became due and recorded in salaries and employee benefits in the consolidated statement of income. Under IFRS, the criteria used to determine whether a plan meets the definition of a defined benefit plan differs from Canadian GAAP and, as a result, under IFRS, ATB is required to account for its participation in the PSPP as a defined benefit plan. The effect of accounting for ATB's participation in the PSPP is an increase in other liabilities and a reduction in opening retained earnings at the transition date, to account for ATB's share of the obligation to provide employee benefits. Subsequent to the transition date, actuarial gains and losses have been recognized in OCI.

iv Leases

ATB has various obligations under long-term non-cancellable contracts, which include leases for buildings and equipment. Under Canadian GAAP, most leases were treated as operating leases, as they did not meet the recognition criteria for capitalization.

Under IFRS, the leases should be treated as finance leases when substantially all the risk and rewards of ownership are transferred to the lessee. As a result, certain operating leases that met the recognition criteria for finance leases under IFRS are capitalized as property and equipment on the consolidated statement of financial position and corresponding liability recorded for the finance lease obligations at April 1, 2010.

Additionally, subsequent to the transition date, depreciation on the property and equipment capitalized under IFRS and interest charges on the finance lease obligations have been recorded on the consolidated statement of income.

v Changes to the Consolidated Statement of Cash Flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by ATB except that, under IFRS, cash flows relating to loans, deposits, and interest-bearing deposits with financial institutions are classified as operating. Under Canadian GAAP, cash flows relating to loans and interest-bearing deposits with financial institutions were classified as investing, and those for deposits were classified as financing.

vi Other

As part of the IFRS transition, ATB made a change to its accounting policy relative to the recognition of regular way purchases. In the past, ATB recognized purchases and sales on a settlement date basis. The accounting policy since changed to trade date. This change was made in order for ATB to recognize regular-way purchases and sales of financial instruments on a consolidated basis that is consistent with its subsidiaries' regulatory requirement to recognize regular-way purchase transactions on a trade-date basis.

ATB has also reclassified the following items on the statement of financial position and statement of income as part of the transition to IFRS:

- Certain items in transit previously reported as other assets or other liabilities have been reclassified to cash.
- For financial instruments classification purposes, cash has been classified as loans and receivables measured at amortized cost; whereas, under Canadian GAAP, cash was classified as financial assets held for trading.
- Wholesale deposits has been renamed wholesale borrowings and moved from deposits to other liabilities to more accurately reflect the nature of the transaction.
- The amount previously reported as recovery of loss on asset-backed commercial paper has been included in net gains on financial instruments at fair value through net income and reported in other income in the consolidated statement of income.

5. Financial Instruments – Classification and Carrying Value

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

As at March 31, 2012
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 247,706	$ -	$ -	$ 247,706[(1)]
Interest-bearing deposits with financial institutions	-	869,939	-	-	-	-	869,939[(1)]
Securities	-	1,912,517	2,200	-	-	-	1,914,717[(1)]
Securities purchased under reverse repurchase agreements	-	99,997	-	-	-	-	99,997[(1)]
Loans							
Residential mortgages	-	-	-	10,228,015	-	-	10,228,015
Business	-	-	-	10,420,960	-	-	10,420,960
Personal	-	-	-	5,562,053	-	-	5,562,053
Credit card	-	-	-	604,887	-	-	604,887
Allowance for credit losses	-	-	-	(107,102)	-	-	(107,102)
	-	-	-	26,708,813	-	-	26,708,813[(2)]
Other							
Derivative financial instruments	257,585	-	-	-	-	66,773	324,358
Other assets	-	-	-	233,214	-	-	233,214
	257,585	-	-	233,214	-	66,773	557,572[(1)]
Financial liabilities							
Deposits							
Personal	-	-	-	-	10,785,376	-	10,785,376
Business and other	-	-	-	-	11,486,666	-	11,486,666
	-	-	-	-	22,272,042	-	22,272,042[(3)]
Other							
Wholesale borrowings	-	-	-	-	2,780,740	-	2,780,740[(4)]
Collateralized borrowings	-	-	-	-	2,651,217	-	2,651,217[(5)]
Derivative financial instruments	257,039	-	-	-	-	2,809	259,848[(1)]
Other liabilities	-	-	-	-	452,211	-	452,211[(1)]
	257,039	-	-	-	5,884,168	2,809	6,144,016
Capital investment notes	-	-	-	-	237,701	-	237,701[(6)]
Subordinated debentures	-	-	-	-	113,362	-	113,362[(7)]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $27,827,300.
[3] Fair value of deposits estimated to be $22,038,977.
[4] Fair value of wholesale borrowings estimated to be $2,806,011.
[5] Fair value of collateralized borrowings estimated to be $2,737,598.
[6] Fair value of capital investment notes estimated to be $253,132.
[7] Fair value of subordinated debentures estimated to be $119,821.

As at March 31, 2011
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 210,385	$ -	$ -	$ 210,385(1)
Interest-bearing deposits with financial institutions	-	1,123,779	-	-	-	-	1,123,779(1)
Securities	-	1,959,658	3,453	-	-	-	1,963,111(1)
Loans							
Residential mortgages	-	-	-	9,920,694	-	-	9,920,694
Business	-	-	-	9,134,397	-	-	9,134,397
Personal	-	-	-	5,589,507	-	-	5,589,507
Credit card	-	-	-	624,539	-	-	624,539
Allowance for credit losses	-	-	-	(112,485)	-	-	(112,485)
	-	-	-	25,156,652	-	-	25,156,652(2)
Other							
Derivative financial instruments	233,846	-	-	-	-	38,040	271,886
Other assets	-	-	-	176,920	-	-	176,920
	233,846	-	-	176,920	-	38,040	448,806(1)
Financial liabilities							
Deposits							
Personal	-	-	-	-	10,576,800	-	10,576,800
Business and other	-	-	-	-	10,422,053	-	10,422,053
	-	-	-	-	20,998,853	-	20,998,853(3)
Other							
Wholesale borrowings	-	-	-	-	3,000,155	-	3,000,155(4)
Collateralized borrowings	-	-	-	-	2,447,580	-	2,447,580(5)
Derivative financial instruments	237,179	-	-	-	-	17,232	254,411(1)
Other liabilities	-	-	-	-	499,389	-	499,389(1)
	237,179	-	-	-	5,947,124	17,232	6,201,535
Capital investment notes	-	-	-	-	230,972	-	230,972(6)
Subordinated debentures	-	-	-	-	67,467	-	67,467(7)

1 Fair value estimated to equal carrying value.
2 Fair value of loans estimated to be $26,189,853.
3 Fair value of deposits estimated to be $20,800,039.
4 Fair value of wholesale borrowings estimated to be $3,041,894.
5 Fair value of collateralized borrowings estimated to be $2,254,337.
6 Fair value of capital investment notes estimated to be $240,107.
7 Fair value of subordinated debentures estimated to be $69,026.

As at April 1, 2010
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 219,607	$ -	$ -	$ 219,607[(1)]
Interest-bearing deposits with financial institutions	-	-	675,576	-	-	-	675,576[(1)]
Securities	-	940,334	490,676	-	-	-	1,431,010[(1)]
Loans							
Residential mortgages	-	-	-	9,433,787	-	-	9,433,787
Business	-	-	-	8,717,809	-	-	8,717,809
Personal	-	-	-	5,446,028	-	-	5,446,028
Credit card	-	-	-	606,724	-	-	606,724
Allowance for credit losses	-	-	-	(83,600)	-	-	(83,600)
	-	-	-	24,120,748	-	-	24,120,748[(2)]
Other							
Derivative financial instruments	142,026	-	-	-	-	84,483	226,509
Other assets	-	-	-	157,491	-	-	157,491
	142,026	-	-	157,491	-	84,483	384,000[(1)]
Financial liabilities							
Deposits							
Personal	-	-	-	-	10,429,248	-	10,429,248
Business and other	-	-	-	-	9,544,040	-	9,544,040
	-	-	-	-	19,973,288	-	19,973,288[(3)]
Other							
Wholesale borrowings	-	-	-	-	2,607,994	-	2,607,994[(4)]
Collateralized borrowings	-	-	-	-	1,870,396	-	1,870,396[(5)]
Derivative financial instruments	138,934	-	-	-	-	7,958	146,892[(1)]
Other liabilities	-	-	-	-	547,892	-	547,892[(1)]
	138,934	-	-	-	5,026,282	7,958	5,173,174
Capital investment notes	-	-	-	-	224,994	-	224,994[(6)]
Subordinated debentures	-	-	-	-	45,176	-	45,176[(7)]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $25,278,316.
[3] Fair value of deposits estimated to be $19,840,544.
[4] Fair value of wholesale borrowings estimated to be $2,681,162.
[5] Fair value of collateralized borrowings estimated to be $2,031,037.
[6] Fair value of capital investment notes estimated to be $230,073.
[7] Fair value of subordinated debentures estimated to be $46,874.

Fair Value Hierarchy

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices
- Level 3 – fair value estimated using inputs not based on observable market data

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The categories of financial instruments whose fair values are classified in Level 3 consist of the following:

- Securities designated at fair value through net income – investments in asset-backed commercial paper (ABCP). (Refer to note 9.)
- Securities available for sale – investments in ABCP. (Refer to note 9.)
- Financial liabilities designated at fair value through net income – embedded derivatives relating to interest rate options on certain residential mortgages.

The following table presents the level within the fair value hierarchy of ATB's financial assets and liabilities measured at fair value:

As at March 31, 2012 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 869,939	$ -	$ 869,939
Securities				
Available for sale	-	-	2,200	2,200
Designated at fair value through net income	-	1,214,436	698,081	1,912,517
Securities purchased under reverse repurchase agreements	-	99,997	-	99,997
Other assets				
Derivative financial instruments	-	324,358	-	324,358
Total financial assets	-	2,508,730	700,281	3,209,011
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	259,747	101	259,848
Total financial liabilities	$ -	$ 259,747	$ 101	$ 259,848

As at March 31, 2011 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 1,123,779	$ -	$ 1,123,779
Securities				
Available for sale	-	-	3,453	3,453
Designated at fair value through net income	-	1,324,985	634,673	1,959,658
Other assets				
Derivative financial instruments	-	271,886	-	271,886
Total financial assets	-	2,720,650	638,126	3,358,776
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	254,222	189	254,411
Total financial liabilities	$ -	$ 254,222	$ 189	$ 254,411

As at April 1, 2010 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Available for sale	$ 200,060	$ 475,516	$ -	$ 675,576
Securities				
Available for sale	6,227	481,222	3,227	490,676
Designated at fair value through net income	-	329,638	610,696	940,334
Other assets				
Derivative financial instruments	-	226,509	-	226,509
Total financial assets	206,287	1,512,885	613,923	2,333,095
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	146,674	218	146,892
Total financial liabilities	$ -	$ 146,674	$ 218	$ 146,892

ATB performs a sensitivity analysis for fair value measurements classified in Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 9 for the ABCP investments that are designated at fair value through net income. The sensitivity analysis for the available-for-sale ABCP and the embedded derivatives relating to interest rate options on certain residential mortgages resulted in an insignificant change in fair value.

The following table presents the changes in fair value of Level 3 financial instruments for the year ended March 31, 2012:

($ in thousands)		Securities available for sale		Securities designated at fair value through net income		Fair value of derivative financial liabilities
Fair value as at March 31, 2011	$	3,453	$	634,673	$	(189)
Total realized and unrealized gains included in net income		-		65,691		88
Total realized and unrealized gains included in other comprehensive income		182		-		-
Net purchases, sales, issuances, and settlements		(1,435)		(2,283)		-
Fair value as at March 31, 2012	$	2,200	$	698,081	$	(101)
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2012	$	-	$	65,691	$	88

($ in thousands)		Securities available for sale		Securities designated at fair value through net income		Fair value of derivative financial liabilities
Fair value as at April 1, 2010	$	3,227	$	610,696	$	(218)
Total realized and unrealized gains included in net income		2,103		25,075		29
Total realized and unrealized gains included in other comprehensive income		143		-		-
Net purchases, sales, issuances, and settlements		(2,020)		(1,098)		-
Fair value as at March 31, 2011	$	3,453	$	634,673	$	(189)
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2011	$	2,103	$	25,075	$	29

6. Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in shaded sections of the Management's Discussion and Analysis (MD&A). These shaded sections of the Risk Management section of the MD&A relating to credit, market, and liquidity risks are an integral part of the 2012 consolidated financial statements.

7. Capital Disclosure

ATB measures and reports capital adequacy to ensure that it meets the minimum levels set out by its regulator, Alberta Finance, while supporting the continued growth of its business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *Alberta Treasury Branches Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the Minister of Finance, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets. Risk weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk. The capital requirements were amended during fiscal 2009–10 to expand the definition of Tier 2 capital. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of notional capital and eligible portions of the collective allowance for credit losses, subordinated debentures, and capital investment notes (to a maximum of $500,000). Effective March 30, 2009, $600,000 of notional (or deemed) capital was made available to ATB. This amount reduces by 25% of net income each quarter.

As at March 31, 2012, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the Capital Adequacy Guideline.

($ in thousands)	**March 31, 2012**	March 31, 2011	April 1, 2010
Tier 1 capital			
Retained earnings	**$ 2,079,985**	$ 1,884,877	$ 1,711,972
Tier 2 capital			
Eligible portions of:			
Subordinated debentures	**70,283**	33,658	9,076
Capital investment notes	**95,080**	134,188	179,995
Collective allowance for credit losses	**67,472**	73,808	62,280
Notional capital	**492,442**	541,219	584,445
	725,277	782,873	835,796
Total regulatory capital	**$ 2,805,262**	$ 2,667,750	$ 2,547,768
Total risk-weighted assets	**$ 22,259,589**	$ 20,882,620	$ 19,886,669
Risk-weighted capital ratios			
Tier 1 capital ratio	**9.3%**	9.0%	8.6%
Total regulatory capital ratio	**12.6%**	12.8%	12.8%

8. Cash Resources

Cash consists of cash on hand, bank notes and coins, and non-interest-bearing deposits with the Bank of Canada and other financial institutions. Interest-bearing deposits with other financial institutions have been classified as either designated at fair value through net income or available for sale and are recorded at fair value. Interest income on interest-bearing deposits is recorded on an accrual basis. Cash has been classified as loans and receivables for financial instruments purposes.

The March 31, 2012, carrying value of interest-bearing deposits with financial institutions consists of $869,939 (2011: $1,123,779) classified as designated at fair value through net income.

ATB has restricted cash that represents deposits held in trust in connection with ATB's securitization activities. These deposits include cash accounts that hold principal and interest payments collected from mortgages securitized through the NHA MBS program awaiting payment to their respective investors and deposits held in interest reinvestment accounts in connection with ATB's participation in the CMB program. The amount of restricted cash as at March 31, 2012, is $49,777 (2011: $29,682).

9. Securities

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

As at March 31, 2012 *($ in thousands)*	Within 1 year	From 1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ 2,200	$ -	$ 2,200
Total securities available for sale	-	2,200	-	2,200
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial government	1,214,436	-	-	1,214,436
Commercial paper				
Third-party-sponsored ABCP	-	632,787	14,660	647,447
Bank-sponsored ABCP	-	50,634	-	50,634
Total securities measured at fair value through net income	1,214,436	683,421	14,660	1,912,517
Total securities	$ 1,214,436	$ 685,621	$ 14,660	$ 1,914,717

As at March 31, 2011 *($ in thousands)*	Within 1 year	From 1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ -	$ 3,453	$ 3,453
Total securities available for sale	-	-	3,453	3,453
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial government	1,324,985	-	-	1,324,985
Commercial paper				
Third-party-sponsored ABCP	-	-	590,603	590,603
Bank-sponsored ABCP	-	17,181	26,889	44,070
Total securities measured at fair value through net income	1,324,985	17,181	617,492	1,959,658
Total securities	$ 1,324,985	$ 17,181	$ 620,945	$ 1,963,111

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $25,918 as at March 31, 2012 (2011: $24,434).

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

As at March 31, 2012 *($ in thousands)*		Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Carrying value
Securities available for sale								
Commercial paper								
Third-party-sponsored ABCP	$	2,385	$	-	$	(185)	$	2,200
Total securities available for sale	$	2,385	$	-	$	(185)	$	2,200
As at March 31, 2011								
Securities available for sale								
Commercial paper								
Third-party-sponsored ABCP	$	3,820	$	-	$	(367)	$	3,453
Total securities available for sale	$	3,820	$	-	$	(367)	$	3,453
As at April 1, 2010								
Securities available for sale								
Issued or guaranteed by the Canadian federal or provincial government	$	481,087	$	145	$	(10)	$	481,222
Commercial paper								
Third-party-sponsored ABCP		3,703		-		(476)		3,227
Other		6,227		-		-		6,227
Total securities available for sale		491,017		145		(486)		490,676
Interest-bearing deposits with financial institutions		675,581		-		(5)		675,576
Total investments available for sale	$	1,166,598	$	145	$	(491)	$	1,166,252

Asset-Backed Commercial Paper

As at March 31, 2012, ATB held asset-backed commercial paper (ABCP) with a total face value of $1,011,739 (2011: $1,014,148). During the year, ATB received principal payments of $3,425 (2011: $7,601) and interest payments of $14,718 (2011: $11,550) on these investments.

ATB's holdings can be divided into three general types:

- Third-party ABCP restructured under the Montreal Accord (Master Asset Vehicle notes, or MAV notes)
- Third-party ABCP restructured outside of the Montreal Accord
- Bank-sponsored ABCP restructured under separate agreements

All are debt instruments with underlying exposure to a range of financial instruments, including residential mortgages, commercial loans, and credit default swaps.

These investments were short-term when first purchased by ATB; but as a result of the general credit crisis that occurred in fiscal 2007–08, they were restructured into longer-term floating-rate notes with a maturity date that more closely matches the maturities of the underlying assets, as detailed in the following table:

As at March 31, 2012 ($ in thousands)	Cost	Coupon	Expected principal repayment	Credit rating
Third-party ABCP				
MAV 1				
Class A-1	409,128	0.30%(1)	Dec 2016	A (high)
Class A-2	384,734	0.30%(1)	Dec 2016	A
Class B	65,592	0.30%(1)	Dec 2016	None
Class C	26,720	20.0%(1)	Dec 2016	None
Tracking notes for ineligible assets	21,389	Floating(2)	July 2056	None
Total MAV 1	**907,563**			
MAV 3				
Tracking notes for traditional assets	2,385	Floating(2)	Sept 2016	None
Total MAV 3	**2,385**			
Other	**34,770**	1.55%(1)	Dec 2016	B (high)
Total third-party ABCP	**944,718**			
Bank-sponsored ABCP	**67,021**	0%–0.35%(1)	Dec 2013–Sept 2016	None–A (low)
Total ABCP	**$ 1,011,739**			

[1] Spread over bankers' acceptance rate.
[2] Coupon rate floats based on the yield of the underlying assets.

All the ABCP investments have been designated as fair value through net income, with the exception of the MAV 3 notes, which have been classified as securities available for sale.

MAV Notes

The MAV 1 notes are supported in whole or in part by the originally pledged collateral and synthetic (or derivative-type) assets. These notes are subject to risk of loss and potential additional collateral calls relative to the leveraged super-senior trades included in the synthetic assets. The notes have different levels of subordination relative to potential losses and principal and interest payments. Specifically, C notes absorb the first realized losses, followed by B notes, A-2 notes, and A-1 notes. In addition, interest on C notes is cumulative and payable only when the principal and interest for the A-1, A-2, and B notes are settled in full. Interest on B notes is cumulative and payable only when the principal and interest for the A-1 and A-2 notes is settled in full. The structure is designed to ensure that the lowest-ranking notes—C and B—absorb the first losses, thereby reducing the risk of loss on the A-1 and A-2 notes.

MAV 1 also contains tracking notes for ineligible assets. The return and maturity of these notes is linked to the underlying assets.

MAV 1 note holders are required to provide a margin-funding facility (MFF) to cover possible collateral calls on the leveraged super-senior trades underlying the A-1, A-2, B, and C notes. Advances under this facility are expected to bear interest at a rate based on the bankers' acceptance rate. If ATB fails to fund any collateral under this facility, the notes held by ATB could be terminated or exchanged for subordinated notes. In order to continue to participate in MAV 1 and self-fund the MFF, ATB will have to maintain a credit rating equivalent to AA (high) with at least two of four credit-rating agencies. If ATB does not maintain the required credit rating, it will be required to provide collateral or obtain the required commitment through another entity with a sufficiently high credit rating. ATB's share of the MFF credit commitment is $551,500, for which ATB will not receive a fee. To recognize the fair value of this commitment, $21,008 (2011: $25,328) has been recorded in other liabilities. As at March 31, 2012, no amount has been funded under the MFF.

The Montreal Accord restructuring included an 18-month post-closing moratorium period during which time margin calls could not be made. The moratorium period expired in July 2010, and as a result, ATB is now exposed to collateralization triggers.

In addition to the MFF, there was also a senior funding facility, which was supported by the governments of Canada, Quebec, Alberta, and Ontario to cover possible shortfalls in the MFFs under MAV 1. This facility matured in August 2010. ATB and all other investors must continue to pay a fee to cover the cost of this facility until December 2016.

ATB's MAV 3 notes are supported exclusively by traditional assets with interest and maturity directly linked to the return and maturities of the underlying assets.

Other Third-Party ABCP

ATB holds one non-MAV third-party note with exposure to leveraged super-senior trades. There are no potential collateral calls relative to this note; although if losses were to occur, the result would be significant based on the amount of leverage on the underlying exposure.

Bank-Sponsored ABCP

ATB holds three bank-sponsored notes: two issued by Apex Trust and one issued by Superior Trust. These notes have exposure to a combination of commercial mortgages and leveraged super-senior trades.

Establishing Fair Value

As at March 31, 2012, there is no observable market price for the various ABCP notes; accordingly, ATB has estimated the fair value of the various notes using a valuation technique. The table below provides a breakdown of the composition and fair value of ATB's ABCP holdings as at March 31, 2012 and 2011:

($ in thousands)	2011 cost	2011 estimated fair value	Note redemptions	Foreign-exchange impact(1)	**2012 cost**	**2012 estimated fair value**
MAV 1	$ 908,538	$ 576,000	$ (1,990)	$ 1,015	**$ 907,563**	**$ 625,171**
MAV 3	3,820	3,453	(1,435)	-	**2,385**	**2,200**
Other third-party-sponsored ABCP	34,770	14,603	-	-	**34,770**	**22,276**
Bank-sponsored ABCP	67,021	44,070	-	-	**67,021**	**50,634**
Total ABCP	$ 1,014,149	$ 638,126	$ (3,425)	$ 1,015	**$ 1,011,739**	**$ 700,281**

[1] MAV 1 includes securities with a carrying value of $25,918 (March 31, 2011: $24,434) denominated in U.S. funds.

MAV Notes – Fair Value

ATB has estimated the fair value of the MAV 1 A-1, A-2, B, and C notes using a discounted cash flow model. The key assumption in this model is the market discount rate. The market discount rate is based on the CDX.IG index tranches adjusted to reflect the lack of liquidity inherent in these notes. The coupon rates, term to maturity, and anticipated cash flows have been based on the expected terms of each note.

The value of the MAV 1 tracking notes for ineligible assets and the MAV 3 tracking notes for traditional assets has been estimated based on a review of the underlying assets.

ATB has recognized a $50,146 increase in fair value on the MAV 1 notes and a $182 increase in the value of the MAV 3 notes this year.

Other Third-Party ABCP

These notes have a fair value of $22,276 (64.1% of cost), an increase of $7,673 from the prior year. This valuation was based on a review of the underlying assets in the trust.

Bank-Sponsored ABCP

ATB also holds investments in certain bank-sponsored commercial paper that were restructured similar to the Montreal Accord notes. The valuation of these notes was based on a review of the underlying assets in each of the trusts. The fair value of these notes increased from 65.8% of cost as at March 31, 2011, to 75.5% as at March 31, 2012. This increase in value was due to an improvement in the credit quality of the notes.

Income Impact

Because of the measurement uncertainty, ATB recognizes interest income on B notes, C notes, and the tracking notes in MAV 1 and MAV 3 only as it is received—no accruals are recorded.

In addition to the $14,718 (2011: $11,550) of interest income recognized on its ABCP during the year, ATB also recognized $4,320 (2011: $4,200) in other income, representing the accretion of the MFF deferral. ATB recorded a $64,676 adjustment to the fair value of the ABCP portfolio, compared to the $28,800 recognized in 2011.

Measurement Uncertainty

There remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie ATB's ABCP. Consequently, the ultimate fair value of these assets may vary significantly from current estimates and the magnitude of any such difference could be material to our financial results. The most significant input into the estimate of value is the market discount rate. A 1% increase in the discount rate will decrease the value of ATB's ABCP notes by approximately $30,000 (2011: $30,000).

10. Loans

Credit Quality

Loans consist of the following:

As at March 31, 2012 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Residential mortgages	$ 10,228,015	$ 6,063	$ 8,808	$ 10,213,144
Personal	5,562,053	10,592	11,586	5,539,875
Credit card	604,887	-	15,929	588,958
Agricultural	1,465,422	356	723	1,464,343
Independent business	2,545,109	7,392	12,685	2,525,032
Commercial	6,410,429	15,227	17,741	6,377,461
	$ 26,815,915	$ 39,630	$ 67,472	$ 26,708,813

As at March 31, 2011 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Residential mortgages	$ 9,920,694	$ 4,365	$ 7,943	$ 9,908,386
Personal	5,589,507	10,099	10,607	5,568,801
Credit card	624,539	-	18,117	606,422
Agricultural	1,401,198	456	761	1,399,981
Independent business	2,446,204	6,788	14,655	2,424,761
Commercial	5,286,995	16,969	21,725	5,248,301
	$ 25,269,137	$ 38,677	$ 73,808	$ 25,156,652

As at April 1, 2010 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Residential mortgages	$ 9,433,787	$ 3,797	$ 6,751	$ 9,423,239
Personal	5,446,028	9,653	11,940	5,424,435
Credit card	606,724	-	17,348	589,376
Agricultural	1,330,649	377	564	1,329,708
Independent business	2,364,973	5,923	10,527	2,348,523
Commercial	5,022,187	1,572	15,148	5,005,467
	$ 24,204,348	$ 21,322	$ 62,278	$ 24,120,748

The net carrying value of the above loans includes mortgages insured primarily by the Canada Mortgage and Housing Corporation, totalling $5,001,180 as at March 31, 2012 (2011: $4,700,877; 2010: $4,351,856), and other insured loans, totalling $139,624 (2011: $114,804; 2010: $94,148).

Included in loans as at March 31, 2012, are $23,267 (2011: $12,277; 2010: $17,014) in foreclosed assets held for resale.

The total net carrying value of the above loans includes loans denominated in U.S. funds, totalling $277,401 as at March 31, 2012 (2011: $162,560; 2010: $212,589).

Loans Past Due

The following are loans past due but not impaired because they are less than 90 days past due or because it is reasonable to expect timely collection of principal and interest:

As at March 31, 2012 *($ in thousands)*		Residential mortgages		Business		Personal		Credit card[(1)]		Total
Up to one month	$	184,057	$	143,576	$	43,216	$	36,687	$	407,536
Over one month up to two months		44,456		4,007		12,287		8,674		69,424
Over two months up to three months		4,851		2,972		7,288		2,778		17,889
Over three months		3,382		2,093		4,592		3,487		13,554
Total past due but not impaired	$	236,746	$	152,648	$	67,383	$	51,626	$	508,403

(1) Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

As at March 31, 2011 *($ in thousands)*		Residential mortgages		Business		Personal		Credit card[(1)]		Total
Up to one month	$	148,800	$	47,317	$	33,038	$	34,869	$	264,024
Over one month up to two months		35,329		3,297		11,940		8,352		58,918
Over two months up to three months		5,167		4,727		12,525		3,287		25,706
Over three months		-		4,863		3,303		5,541		13,707
Total past due but not impaired	$	189,296	$	60,204	$	60,806	$	52,049	$	362,355

(1) Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

As at April 1, 2010 *($ in thousands)*		Residential mortgages		Business		Personal		Credit card[(1)]		Total
Up to one month	$	155,015	$	49,983	$	33,814	$	35,018	$	273,830
Over one month up to two months		20,129		4,451		8,252		8,857		41,689
Over two months up to three months		3,338		6,378		5,811		3,625		19,152
Over three months		1,012		2,389		8,478		6,133		18,012
Total past due but not impaired	$	179,494	$	63,201	$	56,355	$	53,633	$	352,683

(1) Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

Impaired Loans

Impaired loans including the related allowances are as follows:

As at March 31, 2012 *($ in thousands)*	Gross impaired loans	Allowances individually assessed	Net carrying value
Residential mortgages	$ 100,035	$ 6,063	$ 93,972
Commercial	34,284	15,227	19,057
Personal	34,903	10,592	24,311
Independent business	23,810	7,392	16,418
Agricultural	7,919	356	7,563
	$ 200,951	$ 39,630	$ 161,321

As at March 31, 2011 *($ in thousands)*	Gross impaired loans	Allowances individually assessed	Net carrying value
Residential mortgages	$ 87,383	$ 4,365	$ 83,018
Commercial	40,721	16,969	23,752
Personal	28,823	10,099	18,724
Independent business	27,734	6,788	20,946
Agricultural	4,277	456	3,821
	$ 188,938	$ 38,677	$ 150,261

As at April 1, 2010 *($ in thousands)*	Gross impaired loans	Allowances individually assessed	Net carrying value
Residential mortgages	$ 72,631	$ 3,797	$ 68,834
Commercial	5,032	1,572	3,460
Personal	29,381	9,653	19,728
Independent business	25,043	5,923	19,120
Agricultural	4,084	377	3,707
	$ 136,171	$ 21,322	$ 114,849

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers are all participants in the Alberta economy, which in the past has shown strong growth and occasional sharp declines. ATB manages its credit risk through diversification of its credit portfolio by limiting concentrations to single borrowers, industries, and geographic regions of Alberta. As at March 31, 2012, no single industry segment represents more than 25.5% (2011: 22.4%; 2010: 22.3%) of total gross business loans, and no single borrower represents more than 0.36% (2011: 0.28%; 2010: 0.30%) of the total gross loan portfolio.

11. Allowance for Credit Losses

The allowance for credit losses is maintained at a level management considers adequate to absorb credit-related losses for all items in its credit portfolio. The allowance relates primarily to loans, but also provides for credit risk relating to off-balance-sheet items such as loan guarantees and letters of credit. (Refer to note 20.)

The continuity of the allowances for credit losses is as follows:

($ in thousands)		**2012**		2011
Collectively assessed				
Balance at beginning of the year	**$**	**73,808**	$	62,280
(Recovery) provision for credit losses		**(6,336)**		11,528
Balance at end of the year		**67,472**		73,808
Individually assessed				
Balance at beginning of the year	**$**	**40,844**	$	21,321
Writeoffs and recoveries		**(30,805)**		(30,805)
Provision for credit losses		**29,591**		50,328
Allowance for credit losses		**39,630**		40,844
Less: allowance for cost of credit recovery included in other liabilities		**-**		2,167
Balance at end of the year		**39,630**		38,677
Total	**$**	**107,102**	$	112,485

12. Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	Leasehold improvements under construction	Computer equipment under development	Buildings under finance lease	Land	Total
Cost									
Balance at April 1, 2010	122,453	60,012	110,980	43,280	31,254	20,150	109,020	7,546	504,695
Acquisitions	54,948	28,682	7,311	7,579	19,868	20,041	-	-	138,429
Disposals	(8,070)	(2,065)	(32,063)	(4,426)	(34,787)	(31,597)	-	(76)	(113,084)
Balance at March 31, 2011	$ 169,331	$ 86,629	$ 86,228	$ 46,433	$ 16,335	$ 8,594	$ 109,020	$ 7,470	$ 530,040
Balance at April 1, 2011	**169,331**	**86,629**	**86,228**	**46,433**	**16,335**	**8,594**	**109,020**	**7,470**	**530,040**
Acquisitions	**12,695**	**12,018**	**7,340**	**5,851**	**14,117**	**16,994**	**43,210**	**-**	**112,225**
Disposals	**(766)**	**(8,128)**	**(147)**	**(454)**	**(20,917)**	**(19,378)**	**(28,639)**	**-**	**(78,429)**
Balance at March 31, 2012	**$ 181,260**	**$ 90,519**	**$ 93,421**	**$ 51,830**	**$ 9,535**	**$ 6,210**	**$ 123,591**	**$ 7,470**	**$ 563,836**
($ in thousands)									
Depreciation									
Balance at April 1, 2010	85,984	35,213	62,815	31,882	-	-	41,694	-	257,588
Depreciation for the period	17,766	17,743	2,095	3,526	-	-	7,412	-	48,542
Disposals	(4,168)	(734)	(3,434)	(3,123)	-	-	(625)	-	(12,084)
Balance at March 31, 2011	$ 99,582	$ 52,222	$ 61,476	$ 32,285	$ -	$ -	$ 48,481	$ -	$ 294,046
Balance at April 1, 2011	**99,582**	**52,222**	**61,476**	**32,285**	**-**	**-**	**48,481**	**-**	**294,046**
Depreciation for the period	**12,844**	**17,771**	**2,286**	**4,781**	**-**	**-**	**5,416**	**-**	**43,098**
Disposals	**(1,040)**	**(8,748)**	**(13)**	**(441)**	**-**	**-**	**(18,867)**	**-**	**(29,109)**
Balance at March 31, 2012	**$ 111,386**	**$ 61,245**	**$ 63,749**	**$ 36,625**	**$ -**	**$ -**	**$ 35,030**	**$ -**	**$ 308,035**
($ in thousands)									
Carrying amounts									
Balance at April 1, 2010	$ 36,469	$ 24,799	$ 48,165	$ 11,398	$ 31,254	$ 20,150	$ 67,326	$ 7,546	$ 247,107
Balance at March 31, 2011	69,749	34,407	24,752	14,148	16,335	8,594	60,539	7,470	235,994
Balance at March 31, 2012	**69,874**	**29,274**	**29,672**	**15,205**	**9,535**	**6,210**	**88,561**	**7,470**	**255,801**

Depreciation expense charged to the consolidated statement of income for the year ended March 31, 2012, for premises and equipment was $43,098 (2011: $48,542). There was $328 in impairment write-downs recognized during the year ended March 31, 2012 (2011: nil).

13. Software and Other Intangibles

($ in thousands)	Purchased software	Software under development	Other intangibles	Total
Cost				
Balance at April 1, 2010	158,785	139,705	1,316	299,806
Acquisitions	19,799	109,061	809	129,669
Disposals	(37,062)	(9,875)	-	(46,937)
Balance at March 31, 2011	$ 141,522	$ 238,891	$ 2,125	$ 382,538
Balance at April 1, 2011	**141,522**	**238,891**	**2,125**	**382,538**
Acquisitions	**280,350**	**48,424**	**-**	**328,774**
Disposals	**(34,495)**	**(279,193)**	**-**	**(313,688)**
Balance at March 31, 2012	**$ 387,377**	**$ 8,122**	**$ 2,125**	**$ 397,624**

($ in thousands)				
Amortization				
Balance at April 1, 2010	97,783	-	256	98,039
Amortization for the period	21,842	-	618	22,460
Disposals	(34,969)	-	-	(34,969)
Balance at March 31, 2011	$ 84,656	$ -	$ 874	$ 85,530
Balance at April 1, 2011	**84,656**	**-**	**874**	**85,530**
Amortization for the period	**32,062**	**-**	**708**	**32,770**
Disposals	**(33,543)**	**-**	**-**	**(33,543)**
Balance at March 31, 2012	**$ 83,175**	**$ -**	**$ 1,582**	**$ 84,757**

($ in thousands)				
Carrying amounts				
Balance at April 1, 2010	$ 61,002	$ 139,705	$ 1,060	$ 201,767
Balance at March 31, 2011	56,866	238,891	1,251	297,008
Balance at March 31, 2012	**304,202**	**8,122**	**543**	**312,867**

Amortization expense charged to the consolidated statement of income for the year ended March 31, 2012, for software and intangibles was $32,770 (2011: $22,460). There were no impairment write-downs recognized during the year ended March 31, 2012 (2011: nil).

14. Other Assets

Other assets consist of the following:

($ in thousands)	2012	2011	2010
Accrued interest receivable	**$ 179,793**	$ 143,196	$ 131,253
Prepaid expenses and other receivables	**93,173**	87,687	44,462
Other	**12,576**	13,999	13,765
	$ 285,542	$ 244,882	$ 189,480

15. Deposits

Deposit balances consist of the following:

As at March 31, 2012 *($ in thousands)*	Payable on demand	Payable after notice	Payable on a fixed date					Total
			Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 1,992,959	$ 4,443,850	$ 2,338,783	$ 1,284,784	$ 433,330	$ 164,461	$ 127,209	$ 10,785,376
Business and other	7,019,293	2,017,035	2,227,232	139,587	49,115	11,893	22,511	11,486,666
	$ 9,012,252	$ 6,460,885	$ 4,566,015	$ 1,424,371	$ 482,445	$ 176,354	$ 149,720	$ 22,272,042

As at March 31, 2011 *($ in thousands)*	Payable on demand	Payable after notice	Payable on a fixed date					Total
			Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 1,768,267	$ 3,793,020	$ 2,618,133	$ 1,607,412	$ 339,629	$ 294,209	$ 156,130	$ 10,576,800
Business and other	4,338,950	2,287,986	3,550,798	169,943	32,487	29,524	12,365	10,422,053
	$ 6,107,217	$ 6,081,006	$ 6,168,931	$ 1,777,355	$ 372,116	$ 323,733	$ 168,495	$ 20,998,853

Total deposits presented above include $738,309 (2011: $1,216,193) denominated in U.S. funds.

As at March 31, 2012, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $17,408 (2011: $9,245).

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, 2012, the fee was $26,656 (2011: $24,530).

16. Other Liabilities

Other liabilities consist of the following:

($ in thousands)	2012	2011	2010
Accounts payable and accrued liabilities	$ 277,205	$ 312,878	$ 377,762
Accrued interest payable	93,106	115,293	120,532
Payment in lieu of tax payable *(note 25)*	58,279	59,298	38,075
Deposit guarantee fee payable	26,656	25,499	23,706
Due to clients, brokers, and dealers	17,590	14,136	16,998
Achievement Notes *(note 28)*	15,903	12,385	7,350
Accrued pension-benefit liability *(note 18)*	154,528	110,275	117,585
	$ 643,267	$ 649,764	$ 702,008

17. Subordinated Debentures

ATB privately places debentures with the Crown in right of Alberta. These debentures are subordinated to deposits and other liabilities and are unsecured, non-convertible, non-redeemable, and non-transferable. They bear a fixed rate of interest payable semi-annually. The outstanding subordinated debentures were issued with an original term of five years.

As detailed in note 25, subordinated debentures were issued in 2011 to settle the outstanding liability for ATB's payment in lieu of tax as at March 31, 2011.

Subordinated debentures consist of the following:

		($ in thousands)	
Maturity date	Interest rate	**2012**	2011
June 30, 2011	4.6%	**-**	13,403
June 30, 2012	4.5%	**15,989**	15,989
June 30, 2015	3.6%	**38,075**	38,075
June 30, 2016	3.6%	**59,298**	-
		$ 113,362	$ 67,467

18. Employee Benefits

Multi-Employer Pension Plan

Public Service Pension Plan

The Public Service Pension Plan is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. The Minister of Alberta Finance and Enterprise is the legal trustee for the plan and, accordingly, Alberta Finance and Enterprise is manager of the plan. The plan is governed by the Public Service Pension Board.

The plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the year's maximum pensionable earnings and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*.

As a participant in this plan, ATB and its participating employees are responsible for making current service contributions sufficient to provide for the accruing service of members and the amortization of any unfunded liability. ATB's share of the current service contributions (employer and employee) is based on the current pensionable earnings of active ATB participants (prorated against the total current pensionable earnings of all active PSPP members). The employer and employee share the required contributions 50/50.

Although the PSPP pools all assets and liabilities of participating employers and there is no allocation of assets and liabilities to participating employers, in order to recognize an estimate of its current liability under this plan, ATB has applied defined benefit accounting. ATB has estimated its share of the fair value of assets, the defined benefit obligation, and the net pension liability at March 31, 2011, based on its pro-rata share of contributions into the plan, adjusted for its pro-rata contribution rate (split 50/50 between employer and employee). ATB will reassess the estimated value of this liability annually and will disclose the result annually in the March 31 year-end financial statements.

Registered Pension Plan – DB Provisions

Effective July 15, 2006, ATB finalized arrangements with the Government of Alberta to assume pension obligations relating to current ATB employees who participated in the PSPP prior to joining the ATB Plan (the PSPP take-on). The arrangements formalized ATB's commitment to providing combined pensionable service (CPS) benefits for qualifying members whose CPS benefits were affected by the withdrawal of ATB from the Management Employees Pension Plan.

Following execution of the PSPP take-on agreements, certain assets and liabilities were transferred from the PSPP into the ATB Plan in respect of all employees promoted to management positions between January 1, 1994, and December 31, 2005, who were employed by ATB on July 15, 2006. In addition, there are ongoing annual transfers of obligations and assets in respect of employees promoted into management positions in the previous calendar year.

Asset Allocation and Rates of Return

The overall expected long-term rate of return on assets at March 31, 2011, is 6.49% per annum (6.64% per annum at March 31, 2010), based on the following portfolio mix:

	Target 2012		**Actual**	Target 2011		Actual
(%)	**Normal**	**Min–Max**	**2012**	Normal	Min–Max	2011
Equities						
Canadian	**22**	**20–30**	**13.4**	22	20–30	20
Foreign	**40**	**40–50**	**37.9**	40	40–50	42
	62		**51.3**	62		62
Fixed income						
Canadian	**38**	**20–40**	**48.0**	38	20–40	38
Cash	**-**	**0–15**	**0.7**	-	0–15	-
	100		**100**	100		100

The actual return on plan assets for the DB provision of the ATB Plan for the year ended March 31, 2012, was $5,872 (2011: $14,691).

Cash Payments

Total cash paid or payable for employee benefits for the year ended March 31, 2012—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 $45,326 (2011: $53,927). The cash payments decreased over the prior year as ATB made an additional contribution to improve the DB plan's solvency ratio in fiscal 2011.

Contributions expected during the upcoming year are $75,051 for the DB portion of the ATB plan, $155 for the unfunded SRP and CPS, and $12,260 for the PSPP.

Net Accrued Benefit Asset (Liability)

The funded status and net accrued pension-benefit asset (liability) for the DB provisions of the ATB Plan and the other pension obligations (which include the PSPP, SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB) consist of the following:

($ in thousands)		2012		2011
Registered plan				
Fair value of plan assets	$	217,166	$	195,544
Projected benefit obligation		(277,916)		(227,066)
Effect of asset limitation and IAS minimum funding requirement		-		-
Net pension-benefit liability	$	(60,750)	$	(31,522)
Supplemental and other				
Unfunded projected benefit obligation, representing the plan funding deficit		(10,620)		(9,200)
Effect of asset limitation and IAS minimum funding requirement		-		-
Net pension-benefit liability	$	(10,620)	$	(9,200)
ATB's share of PSPP				
Fair value of plan assets	$	157,216	$	145,369
Projected benefit obligation		(240,374)		(214,922)
Effect of asset limitation and IAS minimum funding requirement		-		-
Net pension-benefit liability	$	(83,158)	$	(69,553)
Total net pension-benefit liability	$	(154,528)	$	(110,275)

The net accrued benefit asset and liability are included in other assets and other liabilities in the consolidated statement of financial position as appropriate. (Refer to note 16.)

Other Comprehensive Income

	Registered plan		Supplemental and other		ATB's share of PSPP	
($ in thousands)	2012	2011	2012	2011	2012	2011
Actuarial loss (gain) on plan assets	$ 7,326	$ (3,326)	$ -	$ -	$ 1,820	$ (3,914)
Experience loss on plan liabilities	35,341	13,161	1,341	243	12,547	9,642
Amount recognized in OCI	$ 42,667	$ 9,835	$ 1,341	$ 243	$ 14,367	$ 5,728
Beginning balance, AOCI	9,835	-	243	-	5,728	-
Ending balance, AOCI	$ 52,502	$ 9,835	$ 1,584	$ 243	$ 20,095	$ 5,728

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan, PSPP, SRP, and OPEB obligations consist of the following:

	Registered plan		Supplemental and other		ATB's share of PSPP	
($ in thousands)	2012	2011	2012	2011	2012	2011
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	$ 195,544	$ 153,015	$ -	$ -	$ 145,369	$ 128,629
Contributions from ATB	18,912	29,274	833	361	11,279	10,141
Contributions from employees	1,148	1,147	-	-	-	-
Expected return on plan assets	13,198	11,365	-	-	10,231	9,189
Actuarial gain on plan assets	(7,326)	3,326	-	-	(1,820)	3,914
Benefits paid	(7,243)	(5,594)	(833)	(361)	(7,843)	(6,504)
Net transfer in – Public Service Pension Plan	4,088	3,800	-	-	-	-
Actual plan expenses	(1,155)	(789)	-	-	-	-
Fair value of plan assets at end of the year	$ 217,166	$ 195,544	$ -	$ -	$ 157,216	$ 145,369
Change in projected benefit obligation						
Projected benefit obligation at beginning of the year	$ 227,066	$ 198,867	$ 9,200	$ 7,929	$ 214,922	$ 192,433
Actuarial loss	35,341	13,161	1,341	243	12,547	9,642
Current service cost (including provision for expenses)	3,817	3,469	1,048	890	8,442	7,767
Expenses paid	(1,155)	(789)	-	-	-	-
Contributions from employees	1,148	1,147	-	-	-	-
Plan amendments	1,872	1,045	(686)	-	-	-
Net transfer in – Public Service Pension Plan	4,088	3,800	-	-	-	-
Interest cost	12,982	11,960	550	499	12,306	11,584
Benefits paid	(7,243)	(5,594)	(833)	(361)	(7,843)	(6,504)
Projected benefit obligation at end of the year	$ 277,916	$ 227,066	$ 10,620	$ 9,200	$ 240,374	$ 214,922
Net pension-benefit liability	$ (60,750)	$ (31,522)	$ (10,620)	$ (9,200)	$ (83,158)	$ (69,553)

Financial Information

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the PSPP, SRP, and OPEB consists of the following:

	Registered plan		Supplemental and other		ATB's share of PSPP	
($ in thousands)	**2012**	2011	**2012**	2011	**2012**	2011
Current service cost (including provision for expenses)	**$ 3,817**	$ 3,469	**$ 1,048**	$ 890	**$ 8,442**	$ 7,767
Interest cost on projected benefit obligation	**12,982**	11,960	**550**	499	**12,306**	11,584
Plan amendments	**1,872**	1,045	**(686)**	-	**-**	-
Expected return on plan assets	**(13,198)**	(11,365)	**-**	-	**(10,231)**	(9,189)
Net pension-benefit expense recognized	**$ 5,473**	$ 5,109	**$ 912**	$ 1,389	**$ 10,517**	$ 10,162

Key Assumptions and Sensitivities

The significant assumptions used in the actuarial determination of projected benefit obligations and the related net benefit expense are, on a weighted-average basis, as follows:

	Registered plan		Supplemental and other		ATB's share of PSPP	
	2012	2011	**2012**	2011	**2012**	2011
Accrued benefit obligation as at March 31						
Discount rate at end of year	**4.90%**	5.70%	**4.90%**	5.70%	**4.90%**	5.70%
Rate of compensation increase[(1)]	**3.90%**	3.80%	**3.90%**	3.80%	**3.75%**	3.75%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of year	**5.70%**	6.00%	**5.70%**	6.00%	**5.70%**	6.00%
Expected long-term return on plan assets	**6.49%**	6.64%	**-**	-	**6.95%**	7.05%
Rate of compensation increase[(1)]	**3.80%**	3.80%	**3.80%**	3.80%	**3.75%**	3.75%
ATB's share of PSPP contributions					**4.60%**	4.58%

[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, 2012, and the related expense for the year then ended:

		Registered plan		Supplemental and other	
($ in thousands)		Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Discount rate					
Impact of:	1.0% increase	$ (39,815)	$ (1,436)	$ (1,226)	$ (113)
	1.0% decrease	51,227	1,708	1,519	126
Inflation rate					
Impact of:	1.0% increase	22,813	1,823	254	26
	1.0% decrease	(20,317)	(1,621)	(233)	(32)
Rate of compensation increase					
Impact of:	0.25% increase	1,855	206	9	2
	0.25% decrease	(1,771)	(200)	(9)	(1)
Expected long-term rate of return on plan assets					
Impact of:	1.0% increase	-	(2,034)	-	-
	1.0% decrease	-	2,033	-	-

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.

19. Derivative Financial Instruments

ATB uses the following derivative financial instruments:

Swaps

Swaps are transactions in which two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- In interest rate swaps, ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, loan, and deposit portfolios.
- In cross-currency swaps, ATB exchanges interest and principal payments in different currencies. These are used in the corporate portfolio to manage ATB's foreign-exchange risk.

Options

Options are transactions in which the party that writes an option contract charges the buyer a premium in exchange for the right, but not the obligation, to either buy or sell a specified amount of currency or financial instruments at a specified price on a future date or within a specified time period. ATB buys specialized forms of option contracts, such as interest rate caps, collars, and swap options, as well as equity- and commodity-linked options direct from counterparties in the over-the-counter market (i.e., not purchased on market exchanges). These are used in the corporate derivative portfolio to manage exposure to interest rate and equity and commodity market fluctuations, primarily arising from the loan and deposit portfolios. ATB also buys and sells (or writes) similar option contracts relating to energy commodities in the client derivative portfolio.

Forwards

Foreign-exchange or commodity forwards are transactions conducted in the over-the-counter markets in which two parties agree to either buy or sell a specified amount of a currency or security at a specific price or within a specified time period. ATB uses foreign-exchange forward contracts in both its corporate and client derivative portfolios to manage currency exposure, either arising from its own foreign-currency-denominated loans and deposits, or for its customers. Commodity forward contracts are used only in the client derivative portfolio.

Derivative-Related Credit Risk

Derivative financial instruments traded in the over-the-counter market are subject to credit risk of a financial loss occurring if a counterparty defaults on its contractual obligation. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position. ATB endeavours to limit its credit risk by dealing only with counterparties believed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A-low/A3/A- or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

($ in thousands)	2012 Favourable position	2012 Unfavourable position	2011 Favourable position	2011 Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Options	$ -	$ -	$ 39	$ -
Swaps	9,397	(7,079)	8,695	(3,866)
	9,397	(7,079)	8,734	(3,866)
Embedded derivatives				
Equity- and commodity-linked deposits	-	(50,555)	-	(68,856)
Other	-	(307)	-	(189)
	-	(50,862)	-	(69,045)
Foreign-exchange contracts				
Forwards	5,851	(14,832)	6,222	(16,273)
Equity contracts				
Options	49,807	-	69,457	-
Forward contracts				
Commodities	192,530	(184,266)	149,433	(147,995)
Total fair value ineligible contracts	257,585	(257,039)	233,846	(237,179)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	66,773	(2,809)	38,040	(17,232)
Total fair value eligible contracts	66,773	(2,809)	38,040	(17,232)
Total fair value	$ 324,358	$ (259,848)	$ 271,886	$ (254,411)
Less impact of master netting agreements	(2,480)		(9,628)	
Less impact of financial institution counterparty collateral held	(51,010)		(19,350)	
Residual credit exposure on derivatives to ATB	$ 270,868		$ 242,908	

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $109,853 that relates to client counterparties (2011: $127,889).

The amount of other comprehensive income expected to be reclassified to the consolidated statement of income over the next 12 months is $30,583 (2011: $12,525). This will be offset by gains and losses on assets and liabilities that were hedged.

The following table presents the expected maturity dates on which hedged cash flows will be recognized in the consolidated statement of income:

As of March 31, 2012 *($ in thousands)*	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Interest income	$ 74,662	$ 72,410	$ 69,000	$ 49,604	$ 27,684	$ 18,081	$ 311,441

As of March 31, 2011 *($ in thousands)*	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Interest income	$ 57,880	$ 60,283	$ 65,147	$ 61,836	$ 34,945	$ 1,876	$ 281,967

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 6 years as at March 31, 2012 (March 31, 2011: 6 years).

Term to Maturity

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged and have varying maturity dates. Notional amounts do not represent assets or liabilities and are not recorded in the consolidated statement of financial position. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

As of March 31, 2012 *($ in thousands)*	Ineligible for hedge accounting	Eligible for hedge accounting	Residual term of contract: Within 3 months	3–12 months	1–5 years	Total
Interest rate contracts						
Options	$ 7,777	$ -	$ 7,777	$ -	$ -	$ 7,777
Swaps	15,145,729	2,610,000	2,818,000	11,725,801	3,211,928	17,755,729
Foreign-exchange contracts						
Forwards	2,118,045	-	936,832	1,137,686	43,527	2,118,045
Equity contracts						
Options	330,695	-	2,030	25,155	303,510	330,695
Forward contracts						
Commodities	4,226,389	-	172,407	1,889,849	2,164,133	4,226,389
Embedded derivatives						
Equity- and commodity-linked deposits	318,393	-	1,718	24,097	292,578	318,393
Other	31,616	-	2,367	3,568	25,681	31,616
Total	$ 22,178,644	$ 2,610,000	$ 3,941,131	$ 14,806,156	$ 6,041,357	$ 24,788,644

As of March 31, 2011 *($ in thousands)*	Ineligible for hedge accounting	Eligible for hedge accounting	Residual term of contract: Within 3 months	3–12 months	1–5 years	Total
Interest rate contracts						
Options	$ 28,871	$ -	$ 4,280	$ 16,412	$ 8,179	$ 28,871
Swaps	15,315,000	2,182,000	2,275,000	12,762,000	2,460,000	17,497,000
Foreign-exchange contracts						
Forwards	1,793,500	-	1,469,063	312,724	11,713	1,793,500
Equity contracts						
Options	352,670	-	3,800	18,175	330,695	352,670
Forward contracts						
Commodities	2,891,961	-	69,796	1,428,701	1,393,464	2,891,961
Embedded derivatives						
Equity- and commodity-linked deposits	350,045	-	3,504	17,097	329,444	350,045
Other	30,930	-	978	3,952	26,000	30,930
Total	$ 20,762,977	$ 2,182,000	$ 3,826,421	$ 14,559,061	$ 4,559,495	$ 22,944,977

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 $90,630 as at March 31, 2012 (2011: $13,214).

20. Commitments, Guarantees, and Contingent Liabilities

Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to

ATB should the contracts be fully drawn and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer cannot meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or services) to another party based on changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. The term of these guarantees varies according to the contracts and normally does not exceed one year. In the event of a call on such commitments, ATB has recourse against the customer.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

The amounts presented in the current and comparative year for commitments to extend credit include demand facilities of $12,342,791 (2011: $10,072,528). For demand facilities, ATB considers the undrawn portion to represent a commitment to our customer; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. Credit facilities are contracted for a limited period of usually less than one year and may expire or terminate without being drawn upon.

The contractual amounts of all such credit instruments are outlined in the table below.

($ in thousands)		**2012**		2011
Loan guarantees and standby letters of credit	**$**	**358,233**	$	347,182
Commitments to extend credit		**13,620,695**		12,350,010
	$	**13,978,928**	$	12,697,192

Pledged Assets

In the ordinary course of business, ATB grants a security interest in certain collateral (including securities, interest-bearing deposits with financial institutions, and loans and accounts) to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring. As at March 31, 2012, the total amount of pledged assets encumbered was $43,175 (2011: $69,753). As at March 31, 2012, ATB held $51,010 (2011: $19,350) in financial assets as collateral from financial institution counterparties related to derivative contracts. ATB has also pledged $2,607,640 in mortgages to support the collateralized borrowing outstanding at March 31, 2012 (March 31, 2011: $2,417,423).

($ in thousands)		2012		2011
Assets pledged to:				
Bank of Canada	$	410,379	$	425,460
Clearing and Depository Services Inc.		14,000		14,000
Total	$	424,379	$	439,460

Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples of such agreements include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the consolidated statement of financial position as at March 31, 2012, and March 31, 2011, in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Margin-Funding Facility

As a participant of MAV 1 under the Montreal Accord, ATB must provide a margin-funding facility (MFF) to cover any potential collateral calls associated with the leveraged super-senior trades underlying the Montreal Accord notes. ATB has the same rank as the other participants in the MFF. This credit commitment totals $551,500 and matures in July 2017. ATB does not receive any fee for providing this commitment. The advances that could be made under the MFF are expected to bear interest at the bankers' acceptance rate. All amounts advanced under the MFF will take precedence over amounts payable on the notes issued under MAV 1.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

($ in thousands)	2012	2011
2012	$ -	$ 129,925
2013	78,963	80,882
2014	31,012	39,735
2015	14,556	12,790
2016	11,599	8,033
2017	3,525	3,044
2018 and thereafter	5,162	36,683
	$ 144,817	$ 311,092

The total expense for premises and equipment operating leases charged to the consolidated statement of income for the year ended March 31, 2012, is $36,823 (2011: $38,413).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

($ in thousands)	2012	2011
Future minimum lease payments:		
Not later than one year	$ 16,603	$ 11,856
Later than one year but not later than five years	71,040	45,315
Later than five years	101,446	77,509
Total future minimum lease payments	189,089	134,680
Less: finance charges not yet due	65,082	42,255
Present value of finance lease commitments	$ 124,007	$ 92,425

21. 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, 2012:

	2012							2011
		Incentive plan						
($ in thousands)	Base salary[1]	Short-term[2]	Long-term[3]	Other cash benefits[4]	Retirement and other post-employment benefits	Other non-cash benefits[5]	Total	Total
Chairman of the Board	$ 90	$ -	$ -	$ -	$ -	$ -	$ 90	$ 81
Board Members[6]	498	-	-	-	-	-	498	471
President and Chief Executive Officer[7]	500	450	413	222	32	21	1,638	1,787
Chief Risk Officer	256	84	144	14	95	24	617	648
Chief Financial Officer	257	79	192	13	79	32	652	628
Chief People and Marketing Officer[8]	145	-	-	-	47	6	198	593

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Executive Vice-President Retail Financial Services[9]	**95**	**61**	**70**	**106**	**4**	**11**	**347**	601
Executive Vice-President Corporate Financial Services	**261**	**241**	**310**	**13**	**84**	**18**	**927**	783
Executive Vice-President Business and Agriculture[10]	**231**	**147**	**144**	**136**	**23**	**12**	**693**	807
Executive Vice-President and President ATB Investor Services	**261**	**261**	**312**	**11**	**70**	**16**	**931**	908
Executive Vice-President Strategy and Operations Officer[11]	**275**	**190**	**393**	**133**	**23**	**9**	**1,023**	-

1 Base salary consists of all regular pensionable base pay earned.
2 Short-term incentive plan pay is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.
3 Long-term incentive plan pay is earned in the year, though payment is deferred for up to 36 months and depends on the employee's continued employment with ATB. The actual amount each employee receives appreciates or depreciates from the amount reported above based on a specified methodology to reflect ATB's actual financial performance over the next three fiscal years.
4 Other cash benefits consist of fees for attendance at meetings, retainers, honoraria, lump-sum payments, perquisite allowances, and other direct cash remuneration.
5 Other non-cash benefits consist of ATB's share of all employee benefits and contributions or payments made on behalf of employees, including statutory contributions, health care, parking, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, tuition, and professional memberships.
6 The Board consists of 13 members plus the Chairman, whose remuneration is disclosed separately.
7 The incumbent does not participate in either the registered pension plan or the supplemental retirement plan, but does receive other post-employment benefits.
8 The position of Chief People and Marketing Officer was vacant for the last five months of the year.
9 Two incumbents occupied this position during fiscal 2011–12. Amounts presented are for the current incumbent who occupied this position for five months during the fiscal year. The prior incumbent moved to the position of Executive Vice-President Business and Agriculture.
10 The current incumbent in this role was previously the Executive Vice-President Retail Financial Services. Amounts presented are for the incumbent for the full year. The current incumbent occupied this position for five months during the fiscal year.
11 The position of Executive Vice-President Strategy and Operations was established in 2011–12. The incumbent was previously the Executive Vice-President Business & Agriculture. Amounts presented are for the incumbent for the full year. The current incumbent occupied this position for seven months during fiscal year 2011–12.

Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits presented in the Salaries and Benefits table reflect the period expense for pension and other post-employment benefit (OPEB) rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit or defined contribution provisions of ATB's registered pension plan (the ATB Plan) together with participation in the non-registered defined benefit supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 18.)

	2012				2011
($ in thousands)	Registered plan service cost	Supplemental and other post-employment benefit service costs[1]	Prior service and other costs	Total	Total
President and Chief Executive Officer[2]	$ -	$ 577	$ (545)	$ 32	$ 518
Chief Risk Officer	13	47	35	95	95
Chief Financial Officer	13	45	21	79	74
Chief People and Marketing Officer	10	22	15	47	78
Executive Vice-President Retail Financial Services[3]	4	-	-	4	12
Executive Vice-President Corporate Financial Services	13	45	26	84	81
Executive Vice-President Business and Agriculture[4]	23	-	-	23	23
Executive Vice-President and President ATB Investor Services	13	33	24	70	71
Executive Vice-President Strategy and Operations Officer[5]	23	-	-	23	-

1 As the SRP and the OPEB provided are unfunded obligations and are paid from operating revenues as they come due, none of the SRP and OPEB costs represent cash payments in the period; they represent the period expense for rights to future payments. These benefit costs also represent the total estimated cost incurred in the year ended March 31, 2012, to provide annual pension income over an actuarially determined post-employment period.
2 The incumbent does not participate in either the registered pension plan ATB Plan or the SRP, but does receive OPEB.
3 Two incumbents occupied this position during fiscal 2011–12. Amounts presented are for the current incumbent who occupied the position for five months during the fiscal year.
4 Two incumbents occupied this position during fiscal 2011–12. Amounts presented are for the current incumbent for the full year who occupied the position for five months during the fiscal year.
5 The position Executive Vice-President Strategy and Operations Officer was established in 2011–12. Amounts presented are for the current incumbent for the full year.

The accrued SRP and OPEB obligation for each executive is as follows:[1]

($ in thousands)	Accrued obligation March 31, 2011	Change in accrued obligation	Accrued obligation March 31, 2012[2]
President and Chief Executive Officer[3]	$ 1,888	$ 263	$ 2,151
Chief Risk Officer	562	163	725
Chief Financial Officer	322	119	441
Chief People and Marketing Officer	452	(452)	-
Executive Vice-President Corporate Financial Services	408	136	544
Executive Vice-President and President ATB Investor Services	394	163	557

1 The Executive Vice-Presidents of Business and Agriculture, Retail Financial Services, and Strategy and Operations do not participate in the SRP.
2 The accrued obligation is the amount of funds that would need to be set aside today to meet the obligations in the future based on predetermined assumptions. The discount rate was decreased from 5.7% on March 31, 2011, to 4.9% on March 31, 2012, because of changes in market interest rates. Consequently, there was a large increase in the accrued obligation on March 31, 2012.
3 The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.

22. Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties. (Refer to note 15.) 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, 2012, the total of these payments was $1,000 (2011: $1,004). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits and a payment in lieu of tax. (Refer to notes 15 and 25.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 17.)

ATB entered into a wholesale borrowing agreement with the Minister of Finance and Enterprise on November 24, 2003 (amended November 9, 2007). Under this agreement, the Minister of Finance and Enterprise acts as fiscal agent of ATB under the *Financial Administration Act* and is involved in raising wholesale deposits in the marketplace. As at March 31, 2012 wholesale borrowings includes $1.99 billion (March 31, 2011: nil) payable to the Minister of Finance and Enterprise.

Key management personnel are defined as those personnel having authority and responsibility for planning, directing, and controlling the activities of ATB, and are considered related parties. ATB provides loans to key management personnel, their close family members, and their related entities based on market conditions, with the exception of banking products and services for key management personnel, which are subject to approved guidelines that govern all employees. At March 31, 2012, there were $3,627 (March 31, 2011: $3,070) loans outstanding. Key management personnel have deposits provided at standard market rates. At March 31, 2012, there were $152 (March 31, 2011: $368) in deposits outstanding. Key management personnel may also purchase Achievement Notes based on their role within ATB. At March 31, 2012, there were $2,546 (March 31, 2011: $1,752) in Achievement Notes outstanding to this group. Termination pay of $898 (March 31, 2011: $730) was paid to key management personnel during the year.

23. Interest Rate Risk

Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or repricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect net interest income while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

($ in thousands)	Term to maturity/repricing						
	Within 3 months	**3–12 months**	**Total within 1 year**	**1–5 years**	**Over 5 years**	**Non-interest-rate-sensitive**	**Total**
As at March 31, 2012							
Assets							
Cash resources and securities	**$ 1,875,961**	**$ 1,161,461**	**$ 3,037,422**	**$ -**	**$ -**	**$ 94,937**	**$ 3,132,359**
Loans	**16,867,036**	**2,176,437**	**19,043,473**	**7,954,203**	**42,623**	**(331,486)**	**26,708,813**
Other assets	**-**	**-**	**-**	**-**	**-**	**1,178,568**	**1,178,568**
Derivative financial instruments[1]	**6,314,000**	**1,145,000**	**7,459,000**	**2,215,000**	**635,000**	**-**	**10,309,000**
Total	**25,056,997**	**4,482,898**	**29,539,895**	**10,169,203**	**677,623**	**942,019**	**41,328,740**
Liabilities and equity							
Deposits	**11,222,326**	**2,858,598**	**14,080,924**	**2,681,257**	**76**	**5,509,785**	**22,272,042**
Wholesale borrowings	**1,225,000**	**660,000**	**1,885,000**	**900,000**	**-**	**(4,260)**	**2,780,740**
Collateralized borrowings	**-**	**-**	**-**	**2,655,990**	**-**	**(4,773)**	**2,651,217**
Other liabilities	**51,010**	**-**	**51,010**	**-**	**-**	**852,105**	**903,115**
Capital investment notes	**-**	**54**	**54**	**237,459**	**-**	**188**	**237,701**
Subordinated debentures	**15,989**	**-**	**15,989**	**97,373**	**-**	**-**	**113,362**
Equity	**-**	**-**	**-**	**-**	**-**	**2,061,563**	**2,061,563**
Derivative financial instruments[1]	**6,813,000**	**3,256,000**	**10,069,000**	**240,000**	**-**	**-**	**10,309,000**
Total	**19,327,325**	**6,774,652**	**26,101,977**	**6,812,079**	**76**	**8,414,608**	**41,328,740**
Interest-rate-sensitive gap	**$ 5,729,672**	**$ (2,291,754)**	**$ 3,437,918**	**$ 3,357,124**	**$ 677,547**	**$ (7,472,589)**	
as percentage of assets	**13.9%**	**(5.5%)**	**8.3%**	**8.1%**	**1.6%**	**(18.1%)**	
As at March 31, 2011							
Total assets	$ 20,965,902	$ 6,175,272	$ 27,141,174	$ 8,888,764	$ 245,301	$ 430,458	$ 36,705,697
Total liabilities and equity	16,815,380	5,972,420	22,787,800	6,454,510	270,157	7,193,230	36,705,697
Interest-rate-sensitive gap	$ 4,150,522	$ 202,852	$ 4,353,374	$ 2,434,254	$ (24,856)	$ (6,762,772)	
as percentage of assets	11.3%	0.55%	11.9%	6.6%	(0.07%)	(18.4%)	

[1] Derivative financial instruments are included in this table at the notional amount.

The effective yield represents the weighted-average effective yield based on the earlier of contractual repricing and maturity dates. The weighted-average effective yield for each class of financial asset and liability is shown below:

(%)	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
As at March 31, 2012						
Total assets	**3.0%**	**2.7%**	**2.9%**	**3.9%**	**2.3%**	**3.2%**
Total liabilities and equity	**0.95%**	**1.3%**	**1.0%**	**1.5%**	**1.8%**	**1.2%**
Interest-rate-sensitive gap	**2.1%**	**1.4%**	**1.9%**	**2.4%**	**0.50%**	**2.0%**
As at March 31, 2011						
Total assets	3.3%	2.6%	3.1%	4.5%	3.2%	3.4%
Total liabilities and equity	1.2%	1.7%	1.3%	1.8%	2.8%	1.4%
Interest-rate-sensitive gap	2.1%	0.90%	1.8%	2.7%	0.40%	2.0%

Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100-basis-point and 200-basis-point increase and decrease in interest rates on ATB's net income:

($ in thousands)	2012	2011
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	$ **26,269**	$ 24,240
200 basis points	**51,969**	48,178
Decrease in interest rates of:		
100 basis points	**(39,047)**	(46,904)
200 basis points	**(43,089)**	(68,378)

24. Segmented Information

ATB has organized its operations and activities around the following four business segments or lines of business:

- **Corporate Financial Services** provides financial services to medium- and large-sized corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.
- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.

The four identified segments differ in products and services offered, but are all within the same geographic region, as virtually all of ATB's operations are limited to customers in the Province of Alberta.

Basis of Presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements. Since these lines of business are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

For the 12 months ended (\$ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	Investor Services	Strategic service units[1]	Total
March 31, 2012						
Net interest income	**$ 351,409**	**$ 203,526**	**$ 180,064**	**$ 4,812**	**$ 75,564**	**$ 815,375**
Other income	**96,005**	**61,887**	**65,550**	**61,857**	**19,584**	**304,883**
Total operating revenue	**447,414**	**265,413**	**245,614**	**66,669**	**95,148**	**1,120,258**
Provision for (recovery of) credit losses	**27,924**	**6,421**	**(2,590)**	**-**	**(8,500)**	**23,255**
Non-interest expenses	**298,913**	**124,352**	**46,213**	**71,262**	**302,876**	**843,616**
Income (loss) before payment in lieu of tax	**120,577**	**134,640**	**201,991**	**(4,593)**	**(199,228)**	**253,387**
Payment in lieu of tax	**-**	**-**	**-**	**-**	**58,279**	**58,279**
Net income (loss)	**$ 120,577**	**$ 134,640**	**$ 201,991**	**$ (4,593)**	**$ (257,507)**	**$ 195,108**
Total assets	**$ 16,004,587**	**$ 4,243,073**	**$ 6,401,662**	**$ 55,364**	**$ 4,315,054**	**$ 31,019,740**
Total liabilities	**$ 10,020,626**	**$ 6,854,713**	**$ 4,698,568**	**$ 41,154**	**$ 7,343,116**	**$ 28,958,177**
March 31, 2011[2]						
Net interest income	$ 338,191	$ 193,275	$ 166,905	$ 6,053	$ 65,782	$ 770,206
Other income (loss)	90,710	62,740	61,076	50,652	(14,052)	251,126
Total operating revenue	428,901	256,015	227,981	56,705	51,730	1,021,332
Provision for (recovery of) credit losses	32,321	8,439	23,466	-	(2,370)	61,856
Non-interest expenses	289,912	106,098	37,240	70,686	223,337	727,273
Income (loss) before payment in lieu of tax	106,668	141,478	167,275	(13,981)	(169,237)	232,203
Payment in lieu of tax	-	-	-	-	59,298	59,298
Net income (loss)	$ 106,668	$ 141,478	$ 167,275	$ (13,981)	$ (228,535)	$ 172,905
Total assets	$ 15,774,666	$ 4,154,643	$ 5,307,136	$ 47,301	$ 4,219,951	$ 29,503,697
Total liabilities	$ 10,665,675	$ 5,855,063	$ 4,486,968	$ -	$ 6,641,496	$ 27,649,202

[1] Composed of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, collective allowances, and recoveries for credit losses not expressly attributed to any line.
[2] Prior period results have been restated based on a change in corporate allocation methodology.

Net interest income is attributed to each line of business according to ATB's internal funds transfer pricing (FTP) system whereby assets earn net interest income to the extent that external revenues exceed internal FTP expense, and liabilities earn net interest income to the extent that internal FTP revenues exceed external interest expense. Individually assessed provisions for credit losses are allocated based on the individual underlying impaired-loan balances, and collectively assessed provisions are allocated pro rata based on total performing loan balances.

Direct expenses are attributed between lines as incurred. Certain indirect expenses are allocated between Investor Services and the other lines on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined allocation methods incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under strategic service units.

Financial Information

25. Payment in Lieu of Tax

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the ATB Regulation. The ATB Regulation defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. For the prior year the payment in lieu of tax was calculated as 23% of net income reported under Canadian GAAP. Commencing this fiscal year, it is calculated as 23% of net income reported under IFRS.

As at March 31, 2012, ATB accrued a total of $58,279 (2011: $59,298) for payment in lieu of tax. The amount outstanding as at March 31, 2011, was settled on June 30, 2011, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 17.) The payment in lieu of tax will continue to be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated. (Refer to note 7.)

26. Capital Investment Notes

Capital investment notes are five-year non-redeemable guaranteed notes issued to the general public. As described in note 7 to these financial statements, ATB's capital requirements were amended during fiscal 2009–10 to expand the definition of Tier 2 capital to include the eligible portion of capital investment notes to a maximum of $500,000. As at March 31, 2012, $237,701 (2011: $230,972) of these notes were outstanding with a fixed rate of return of 4.25% and will mature in fiscal 2014–15.

27. Collateralized Borrowings

ATB periodically securitizes insured residential mortgage loans by participating in the NHA MBS program. Through the program, ATB issues securities backed by residential mortgage loans that are insured against borrowers' default. Once the mortgage loans are securitized, ATB assigns underlying mortgages and/or related securities to CMHC. As an issuer of the MBS, ATB is responsible for advancing all scheduled principal and interest payments to CMHC, whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered will ultimately be recovered from the insurer.

The securitization activity includes ATB's participation in the Canada Mortgage Bond (CMB) program. Under the program, CMHC guarantees the bonds of a special purpose trust, Canada Housing Trust (CHT). CHT uses the proceeds of its bond issuance to finance the purchase of NHA MBSs issued by ATB. In these securitizations, ATB retains prepayment and interest rate risk and rewards related to the transferred mortgages. Due to retention of these risks and rewards, transferred mortgages are not derecognized and the securitization proceeds are accounted for as collateralized borrowing transactions. Also included in the collateralized borrowing liabilities are accrued interest, deferred transaction costs, and premiums and discounts, representing the difference between cash proceeds and the notional amount of the liability issued. Accrued interest on the collateralized borrowing liability is based on the CMB coupon for each respective series. At the time of the CMB coupon settlement, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by ATB.

There are no expected credit losses on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of ATB in the event of failure of debtors to pay when due.

As part of a CMB transaction, ATB must enter into a total return swap with highly rated counterparties, exchanging cash flows of the CMB for those of the MBS transferred to CHT. Any excess or shortfall in these cash flows is absorbed by ATB. These swaps are not recognized on ATB's consolidated balance sheet, as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB collateralized borrowing liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through ATB's consolidated statement of income. The notional amount of these swaps at March 31, 2012 is $2,655,989 (2011: $2,456,390).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to the CHT are transferred to the CHT on a monthly basis where they are either reinvested in new MBSs or invested in eligible investments. To the extent that these eligible investments are not ATB's own issued MBSs, the investments are recorded on ATB's consolidated balance sheet as securities measured at fair value through net income. The amount of investments as at March 31, 2012, is nil (2011: $9,558).

The following table presents the carrying amount of the residential mortgage loans transferred but not derecognized, and the related liability recognized on the consolidated statement of financial position:

As at *($ in thousands)*	**March 31, 2012**	March 31, 2011	April 1, 2010
Residential mortgage loans	**$ 2,651,904**	$ 2,451,244	$ 1,871,501
Collateralized borrowings	**2,651,217**	2,447,580	1,870,396

28. Achievement Notes

ATB sold Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB Financial that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees could purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of the certain ATB subsidiaries
- Cash distributions, if any, based on the net positive dividends paid by certain ATB subsidiaries to ATB

Financial Information

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There is no public market for these notes; thus the valuation is based on a model prepared by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of the ATB subsidiaries reduces, that the note holder will lose some or all of the original investment.

During the year, ATB issued $1,198 (2011: $1,273) of these notes, which are recorded in other liabilities on the consolidated statement of financial position. During the current year $448 (2011: $328) of the notes have been redeemed. An expense of $2,768 (2011: $4,090) was recognized during the year to reflect the increase in the fair value of the notes based on the March 31, 2012, valuation of the notes. As at March 31, 2012, the liability for these notes was $15,903 (2011: $12,385).

ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Board of Directors of ATB Insurance Advisors Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Insurance Advisors Inc., which comprise the balance sheets as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Insurance Advisors Inc. as at March 31, 2012, March 31, 2011, and April 1, 2010, and its financial performance and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
June 6, 2012
Edmonton, Alberta

Balance Sheets

As of March 31, 2012	**March 31 2012**	March 31 2011	April 1 2010
ASSETS	**$**	$	$
Current assets			
Cash	**93,070**	469,491	323,186
Accounts receivable	**78,095**	64,678	48,459
Prepaid expenses	**63,047**	26,180	-
Due from affiliates *(note 5)*	**794,884**	139,598	92,768
	1,029,096	699,947	464,413
Other assets *(note 9)*			
Software and other intangibles	**-**	86,029	12,107
	-	86,029	12,107
	1,029,096	785,976	476,520
LIABILITIES			
Current liabilities			
Accrued liabilities	**135,498**	272,428	239,419
Variable compensation payable	**45,631**	72,832	69,958
Due to ATB *(note 6.i)*	**6,188,676**	5,085,937	3,737,939
Current portion of unearned revenue	**47,834**	12,662	12,662
Current portion of deferred variable pay	**19,623**	1,671	847
	6,437,262	5,445,530	4,060,825
Long term liabilities			
Unearned revenue	**24,386**	52,843	44,892
Deferred variable pay	**41,923**	39,322	14,171
Due to ATB *(note 6.ii)*	**134,399**	54,934	8,761
	6,637,970	5,592,629	4,128,649
SHAREHOLDER'S EQUITY			
Share capital *(note 7)*	**5,000**	5,000	5,000
Deficit	**(5,613,874)**	(4,811,653)	(3,657,129)
	(5,608,874)	(4,806,653)	(3,652,129)
	1,029,096	785,976	476,520

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

Approved by the Board of Directors

Chairman of the Board

Chief Financial Officer

Statements of Changes in Equity

For the year ended March 31, 2012	Class A Common Shares	Share Capital $	Deficit $	Shareholder's Equity $
Balance at April 1, 2010	100	5,000	(3,657,129)	(3,652,129)
Share based payment (note 6ii)	-	-	(46,173)	(46,173)
Net loss for the year	-	-	(1,108,351)	(1,108,351)
Balance at March 31, 2011	100	5,000	(4,811,653)	(4,806,653)
Share based payment (note 6ii)	-	-	(96,863)	(96,863)
Net loss for the year	-	-	(705,358)	(705,358)
Balance at March 31, 2012	100	5,000	(5,613,874)	(5,608,874)

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

Statements of Operations and Comprehensive Loss

For the year ended March 31, 2012	**March 31, 2012 $**	March 31, 2011 $
Revenue		
Insurance commissions	**1,279,545**	2,721,977
Interest revenue *(note 10)*	**58**	72
Other revenue	**94,655**	-
	1,374,258	2,722,049
Administration and Selling expenses *(note 10)*		
Salaries and employee benefits *(note 11)*	**759,918**	1,675,862
Variable compensation expense	**454,524**	945,821
Other expenses	**435,632**	724,060
Professional fees	**127,354**	185,102
Amortization expense *(note 9)*	**83,104**	17,907
Referral fees paid to affiliates	**54,401**	164,060
Interest expense	**164,683**	117,588
	2,079,616	3,830,400
Net loss and comprehensive loss for the year	**705,358**	1,108,351

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

Statements of Cash Flows

For the year ended March 31, 2012	March 31, 2012	March 31, 2011
Cash provided from (used in)	$	$
Operating activities		
Net loss for the year	(705,358)	(1,108,351)
Items not affecting cash		
Amortization of software and other intangibles	83,104	17,907
	(622,254)	(1,090,444)
Net change in non-cash working capital items		
Increase in prepaid expenses	(36,868)	(26,180)
Increase in accounts receivable	(13,417)	(16,219)
Increase in due from affiliates	(655,286)	(46,830)
(Decrease) increase in accrued liabilities	(136,930)	33,009
(Decrease) increase in variable compensation payable	(27,201)	2,874
Increase in deferred variable pay	20,553	25,975
Increase in unearned revenue	6,715	7,951
Long term liabilities	(842,434)	(19,420)
Net cash used in operating activities	(1,464,688)	(1,109,864)
Investing activities		
Proceeds (Purchase) of software and other intangibles	2,925	(91,829)
Net cash used in investing activities	2,925	(91,829)
Financing activities		
Equity settled share based payment	(17,398)	-
Increase in due to ATB	1,102,740	1,347,998
Net cash from financing activities	1,085,342	1,347,998
Net change in cash	(376,421)	146,305
Cash - Beginning of year	469,491	323,186
Cash - End of year	93,070	469,491
Supplementary information		
Interest paid	164,683	117,588
Interest received	58	72

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

Notes to the Financial Statements

March 31. 2012

1. Incorporation, Operations and Economic Dependence

ATB Insurance Advisors Inc. ("ATBIA" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to provide personal insurance products including but not limited to life insurance, disability insurance, critical illness insurance and annuities. ATBIA was established by Order in Council and incorporated in Alberta under the Business Corporations Act (Alberta) on July 21, 2006. As a provincial Crown corporation, ATBIA is exempt from income tax.

For the year ended March 31, 2012, ATBIA reported a net loss of $705,358 (2011 - $1,108,351), negative cash flow from operating activities of $1,464,688 (2011 - $1,109,864) and an accumulated deficit of $5,613,874 (2011 - $4,811,653). The continuing operations of ATBIA remain dependent upon ATB's ongoing financial support.

The address of the Company's registered office is:
9888 Jasper Avenue
Edmonton, Alberta T5J 1P1

These financial statements were authorized for issue by the Board of Directors on June 6, 2012.

2. Significant Accounting Policies

a. Basis of Preparation

Adoption of International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are ATBIA's first IFRS financial statements and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of ATBIA is provided in note 4.

The 2011 comparative figures presented in these financial statements have been restated to take into account these new standards. These statements should be read in conjunction with the financial statements for the year ended March 31, 2011 prepared in accordance with Canadian GAAP.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of 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 ATBIA must make estimates includes share based payments, provisions for lapse, commission clawbacks and amortization of software.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization with cost amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBIA, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

e. Impairment of Software and Other Intangibles

Software and other intangibles in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

f. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIA; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

g. 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.

Unearned revenue relates to insurance commissions that have been paid but are subject to a clawback in the event of policy lapse.

h. Employee Future Benefits

ATBIA provides future benefits to current and past employees through defined contribution ("DC") plans.

i Accounting for Defined Contribution Plans

ATBIA provides its management employees with a registered pension plan with DC provisions. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive loss.

ii Short Term Employee Benefits

Short term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services. Variable pay and revenue sharing are recognized to the extent that ATBIA has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recorded in the statement of operations and comprehensive loss as salaries and employee benefits or variable compensation expense.

i. Share Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB. The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date, and does not change subsequently. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

The Company is charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employee. These charges are recorded as a payable to ATB with a corresponding entry to retained earnings (deficit) similar to a distribution.

Non-market performance and service conditions are included in assumptions about the number of notes that are expected to vest. The total liability of the notes is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

j. Financial Instruments – Recognition and Measurement

Financial assets are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIA becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the assets has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIA derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

i Financial Assets

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. ATBIA has classified cash, accounts receivable, and due from affiliates as loans and receivables.

Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method.

Impairment

ATBIA assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii Financial Liabilities

Other Liabilities Measured at Amortized Cost

Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortized cost. Accrued liabilities and due to ATB are classified as financial liabilities measured at amortized costs. These are measured initially at fair value and subsequently recorded at amortized cost using the effective rate method.

k. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, accounts receivable, accrued liabilities, due to ATB (note 6.i) and due from affiliates.

l. Translation of Foreign Currencies

The financial statements are presented in Canadian dollars which is the functional currency of ATBIA. Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the average exchange rate for the period. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive loss.

3. Future Accounting Changes

IFRS 9, Financial Instruments – Phase 1

The IASB issued on November 12, 2009 and amended on October 28, 2010 the first phase of a project that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard defines a new way to classify and measure financial assets and liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the entity's business model to manage its financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified.

Impairment of financial asset methodology, offsetting of financial assets and liabilities, and hedging activities will be covered in future phases that will complete IFRS 9.

On December 16, 2011, IASB issued amendments to IFRS 9 Financial Instruments that defer the mandatory effective date from January 1, 2013 to January 1, 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date. The amendments also provide relief from the requirements to restate comparative financial statements for the effect of applying IFRS 9, although additional transitional disclosures will be required. Earlier application of the standard is permitted.

ATBIA is currently assessing the impact of the adoption of IFRS 9; however, since the impact of the adoption depends on the financial instruments held by ATBIA on the date of adoption, ATBIA cannot quantify it.

IFRS 13, Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS.

ATBIA is currently assessing the fair value measurement requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IAS 1, Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which improves the presentation of items of other comprehensive income. The amendments require the presentation by nature of items of other comprehensive income by distinguishing those that will not be reclassified to the statement of income in a subsequent period from those that will. The revised standard is effective for annual periods beginning on or after July 1, 2012 with early adoption permitted. ATBIA is currently assessing the impact of the adoption of this new standard.

IAS 32, Financial Instruments Presentation

On December 16, 2011, the IASB issued amendments to IAS 32, Financial Instruments Presentation. The amendments address inconsistencies in current practice when applying the offsetting criteria. The amendments clarify that the meaning of "currently" has a legally enforceable right of set off; and that some gross settlement systems may be considered equivalent to net settlement. ATBIA is currently assessing the impact of the amendments which are effective for annual periods beginning on or after January 1, 2014.

4. Impact of IFRS Adoption

ATBIA has adopted IFRS effective April 1, 2010 (ATBIA's date of transition). Prior to the adoption of IFRS, ATBIA prepared its financial statements in accordance with Canadian GAAP.

a. Transition Elections

In preparing these financial statements in accordance with IFRS 1, ATBIA has applied the mandatory exception from full retrospective application of IFRS. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by ATBIA under Canadian GAAP are consistent with their application under IFRS.

b. Reconciliation of Net Income and Equity as Previously Reported under Canadian GAAP to IFRS

i Net Loss and Comprehensive Loss

The net loss reported by ATBIA under Canadian GAAP for the year ended March 31, 2011 was $1,181,003. This amount was adjusted to $1,108,351 under IFRS. The decrease relates to the change in accounting treatment for achievement notes as described in note (iii) below:

ii Equity

As at March 31, 2011	**Canadian GAAP** $	**IFRS Adjustments (see note iii)** $	**IFRS** $
Deficit			
Balance at beginning of the year	(3,680,364)	23,235	(3,657,129)
Share based payment	-	(46,173)	(46,173)
Net Loss	(1,181,003)	72,652	(1,108,351)
Deficit	(4,861,367)	49,714	(4,811,653)

As at April 1, 2010	**Canadian GAAP** $	**IFRS Adjustments (see note iii)** $	**IFRS** $
Deficit			
Balance at beginning of the year	(2,763,210)	-	(2,763,210)
Share based payment	-	(8,761)	(8,761)
Net Loss	(917,154)	31,996	(885,158)
Deficit	(3,680,364)	23,235	(3,659,129)

iii Explanatory Notes

Previously under Canadian GAAP, Achievement Notes ("notes") were treated as a financial instrument and a liability for the notes was recorded with a corresponding entry to compensation expense for changes in the fair value of the notes at each balance sheet date.

Upon adoption of IFRS, it was determined that the notes are included in the scope of IFRS 2, Share based Payment (IFRS 2). Under the Achievement Notes Plan ATB is the issuer of the notes and has the obligation to settle the notes with employees, whereas the Company is charged by ATB for its share of the fair value changes related to employees of the Company. Accordingly, this is a group plan under IFRS 2 where the awards are considered cash-settled by the parent, but equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date, and does not change subsequently. Since the notes are issued to employees at fair value on the grant date, no compensation is recorded by the Company related to the awards when granted.

Subsequent changes in fair value of the notes are also not recognized by the Company in compensation expense for equity-settled awards. However, the Company is charged by ATB for their share of the subsequent fair value changes relating to employees providing a service to the Company as the awards vest to the employee (generally over three years). Under IFRS 2, parent company charges that are directly related to share-based awards are treated similar to a distribution. Therefore, a payable to ATB is recorded, with a corresponding entry to retained earnings (deficit), for changes in the amounts owing to the parent relating to fair value changes in the Company's share of underlying notes (see also note 6 (ii) for further description of the notes).

Adjustments were made in these financial statements to reverse compensation expense previously recorded under Canadian GAAP and to reflect distributions from the deficit for amounts charged back by the parent.

The net increase to equity at each balance sheet date follows:

	$
April 1, 2010	23,235
March 31, 2011	49,714

5. Due From Affiliates

In the normal course of operations ATBIA pays referral fees to ATB Securities Inc. ("ATBSI"). Alternatively, ATBIA may pay for certain expenses on behalf of ATB Investment Management Inc. ("ATBIM") and ATBSI. These amounts are duly recorded as payables and receivables in each of ATBIA's, ATBIM's, and ATBIA's accounts. The amounts due from affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges.

The amounts due from affiliates are as follows:

	March 31 2012 $	March 31 2011 $	April 1 2010 $
Due From ATBSI	540,746	95,224	59,200
Due From ATBIM	254,138	44,374	33,568
	794,884	139,598	92,768

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses on behalf of ATBIA. The amounts due to ATB arising from these transactions are as follows:

	March 31 2012 $	March 31 2011 $	April 1 2010 $
Due to ATB	6,188,676	5,085,937	3,737,939

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2012 was 3.00% (March 31, 2011 – 3.00%, April 1, 2010 – 2.25%).

The fair value of this loan at March 31, 2012 is estimated at $1,631,000.

ii Amounts due to ATB relating to Achievement Notes

ATB sold Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB Financial that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries, including ATBIA. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of the certain ATB subsidiaries.
- Cash distributions, if any, based on the net positive dividends paid by certain ATB subsidiaries to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of the ATB subsidiaries reduces, that the note holder will lose some or all of the original investment.

To the extent that notes are redeemed at fair market value, ATBIA will reimburse ATB, through an equity distribution, for payments made to employees of ATBIA in excess of the original subscription amount.

Amounts due to ATB represent ATBIA's proportionate share of increase in the fair value of the notes owing to ATB. The net change in unpaid equity-settled share based payment during the period with respect to the liability held at March 31, 2012 was $79,465 (March 31, 2011 - $46,713, April 1, 2010 - $8,761).

7. Share Capital

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding:

	March 31 2012	March 31 2011	April 1 2010
Class A common shares #	100	100	100
Amount	$5,000	$5,000	$5,000

8. Financial Instruments

ATBIA's financial instruments consist of cash, accounts receivable, due (to) from affiliates, accrued liabilities and due to ATB (note 6.i).

Financial Risk Management

Financial instruments are exposed to a variety of financial risks: interest rate 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, accounts receivable, due from affiliates, accrued liabilities and due to ATB (note 6.i) approximate the carrying value due to the short term nature of these instruments.

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 significant financial instruments denominated in foreign currencies.

Interest rate risk: ATBIA is subject to interest rate cash flow risk as its amount due to ATB is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIA does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2012, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $61,900.

Price risk: ATBIA'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

ATBIA is exposed to credit risk primarily through its cash, accounts receivable and due from affiliates. ATBIA cash deposits are held with reputable financial institutions and cash and due from affiliate balances held with its parent company, ATB, an Alberta Crown Agent, and its subsidiaries, from which management believes the risk of loss to be insignificant.

Accounts receivable are primarily composed of insurance commissions receivable from large and reputable insurance companies from whom the risk of loss is deemed to be insignificant.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligation and whether additional funding is required through its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk which are considered short term (due on demand or within 30 days) include accrued liabilities and due to ATB (note 6.i).

9. Other Assets

	Software $	Software under development $	Total $
Cost			
Balance at April 1, 2010	30,266	-	30,266
Additions	88,904	2,925	91,829
Balance at March 31, 2011	119,170	2,925	122,095
Balance at April 1, 2011	119,170	2,925	122,095
Decapitalized costs	-	(2,925)	(2,925)
Disposals	(119,170)	-	(119,170)
Balance at March 31, 2012	-	-	-
Depreciation			
Balance at April 1, 2010	18,159	-	18,159
Amortization for the period	17,907	-	17,907
Balance at March 31, 2011	36,066	-	36,066
Balance at April 1, 2011	36,066	-	36,066
Amortization for the period	83,104	-	83,104
Disposals	(119,170)	-	(119,170)
Balance at March 31, 2012	-	-	-
Carrying Amounts			
Balance at April 1, 2010	12,107	-	12,107
Balance at March 31, 2011	83,104	2,925	86,029
Balance at March 31, 2012	-	-	-

Amortization expense charged to the statement of operations and comprehensive loss for the year ended March 31, 2012 was $83,104 (2011 - $17,907) and included a writedown of $71,187 due to the restructure of ATBIA resulting in software no longer deployed. There were no impairments recognized during the year ended March 31, 2012 (2011: $nil).

Financial Information

10. Related-Party Transactions

In the normal course of operations, ATBIA receives interest revenue from ATB, and pays referral fees to ATBSI and ATBIS. ATB also charges ATBIA for various administrative and selling services, as well as charging interest on amounts owing to ATB.

A summary of these transactions are as follows:

Related Party	Transactions	Recorded As	March 31 2012 $	March 31 2011 $	March 31 2010 $
	Revenue				
ATB	Interest	Interest income	58	72	452
	Administration and Selling Expenses				
ATBSI	Referral fees	Referral fees paid to affiliates	54,401	164,060	228,170
ATB	Administrative services	Other expenses	66,671	84,057	84,667
ATB	Information Technology and rent	Other expenses	185,393	236,231	306,377
ATB	Marketing	Other expenses	-	148,341	130,509
			306,465	632,689	749,723
	Interest Expense				
ATB	Interest expense	Interest expense	164,683	117,511	69,648

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and Is intended to reflect normal market terms.

Compensation of Key Management Personnel

Under IFRS key management personnel are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

Key management personnel compensation comprised:

	2012 $	2011 $
Short term employee benefits	181,805	115,492
Deferred Compensation	20,962	20,962
Retirement and post employment benefits	14,455	8,262
	217,222	144,715

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, 2012, expenses related to the defined contribution plan provision were $(24,185) ,(2011 - $179,024).

12. Capital Disclosure

ATBIA's objectives in managing its capital, which is defined as shareholder's equity are:

- To safeguard ATBIA's ability to operate as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives.

13. Comparative Figures

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

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Investment Management Inc., which comprise the balance sheets as at March 31, 2012 and April 1, 2011, and the statements of operations and comprehensive income, changes in equity, and cash flows for the year ended March 31, 2012, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*, based on the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Investment Management Inc. as at March 31, 2012 and April 1, 2011 and its financial performance and cash flows for the year ended March 31, 2012 in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Basis of Accounting and Restriction of Use

Without modifying my opinion, I draw attention to note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ATB Investment Management Inc. to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*. As a result, the financial statements may not be suitable for another purpose. My report is intended solely for the Board of Directors of ATB Investment Management Inc. and the Alberta Securities Commission and should not be used by parties other than the Board of Directors of ATB Investment Mangagement Inc. and the Alberta Securities Commission.

[Original signed by Merwan N. Saher, FCA]

Auditor General
June 6, 2012
Edmonton, Alberta

Financial Information

Balance Sheets

As of March 31, 2012150	March 31 2012	April 1 2011
ASSETS	$	$
Current assets		
Cash	**2,424,095**	4,906,624
Accounts receivable	**5,893,265**	3,112,481
Prepaid expenses	**226,511**	208,013
Securities held for trading	**64,534**	-
	8,608,405	8,227,118
Other assets *(note 10)*		
Computer Equipment	**2,243**	11,217
Software	**1,586,378**	2,406,463
	1,588,621	2,417,680
	10,197,026	10,644,798
LIABILITIES		
Current liabilities		
Accrued liabilities	**2,500,582**	2,706,531
Due to ATB *(note 6.i)*	**1,550,751**	3,665,497
Due to affiliates *(note 5)*	**346,413**	214,033
Current portion of deferred variable pay	**65,495**	25,000
	4,463,241	6,611,061
Long term liabilities		
Deferred variable pay	**133,850**	134,487
Due to ATB *(note 6.ii)*	**1,550,129**	626,178
	6,147,220	7,371,726
SHAREHOLDER'S EQUITY		
Share capital *(note 7)*	**5,000**	5,000
Retained Earnings	**4,044,806**	3,268,072
	4,049,806	3,273,072
	10,197,026	10,644,798

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

Approved by the Board of Directors

Statements of Changes in Equity

For the year ended March 31, 2012	Class A Common Shares	Share Capital $	Retained Earnings $	Shareholder's Equity $
Balance at April 1, 2011	100	5,000	3,268,072	3,273,072
Shares issued	-	-	-	-
Dividends paid	-	-	(4,000,000)	(4,000,000)
Share based payment	-	-	(935,177)	(935,177)
Net Income for the year	-	-	5,711,911	5,711,911
Balance at March 31, 2012	100	5,000	4,044,806	4,049,806

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

Statement of Operations and Comprehensive Income

For the year ended March 31, 2012	March 31, 2012 $
Revenue *(note 12)*	
Investment management fees	38,713,699
Managed account fees	6,090,838
Interest revenue	34,010
	44,838,547
Administration and Selling expenses *(note 12)*	
Trailing commission	22,080,945
Professional fees	8,834,872
Salaries and employee benefits *(note 13)*	5,443,590
Other expenses	1,920,498
Amortization expense *(note 10)*	831,944
Interest expense	14,787
	39,126,636
Net income and comprehensive income for the year	5,711,911

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

Statement of Cash Flows

For the year ended March 31, 2012	March 31, 2012
Cash provided from (used in)	$
Operating activities	
Net income for the year	5,711,911
Items not affecting cash	
Amortization of equipment	8,974
Amortization of software and other intangibles	822,970
	6,543,855
Net change in non-cash working capital items	
Increase in accounts receivable	(2,780,784)
Increase in prepaid expenses	(18,498)
Decrease in accrued liabilities	(205,949)
Increase in due to affiliates	132,380
Increase in deferred variable pay	39,858
	(2,832,993)
Net cash provided from operating activities	3,710,862
Investing activities	
Securities held for trading	(64,534)
Purchase of computer equipment and software	(2,885)
Net cash used in investing activities	(67,419)
Financing activities	
Decrease in due to ATB	(2,114,746)
Dividends paid	(4,000,000)
Equity settled share based payments	(11,226)
Net cash from financing activities	(6,125,972)
Net change in cash	(2,482,529)
Cash – Beginning of year	4,906,624
Cash – End of year	2,424,095
Supplementary information	
Interest paid	14,787
Interest received	34,010

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

Notes to the Financial Statements

For the year ended March 31, 2012

1. Incorporation and Operations

ATB Investment Management Inc. ("ATBIM" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to facilitate managing a family of ATB ("Compass") mutual fund portfolios and providing portfolio management services to high net worth clientele. ATBIM was incorporated under the Business Corporations Act (Alberta) on August 21, 2002. As a provincial Crown corporation, ATBIM is exempt from income tax. ATBIM is registered with the Alberta Securities Commission ("ASC").

The address of the Company's registered office is:
9888 Jasper Avenue
Edmonton, Alberta T5J 1P1

These financial statements were authorized for issue by the Board of Directors on June 6, 2012.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants (the Framework). The Framework requires the financial statements to be prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises, as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook), except that:

i any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27,

ii comparative information relating to the preceding financial year must be excluded, and

iii the first day of the financial year to which the financial statements relates must be used as the date of transition to the financial reporting framework.

Accordingly, readers are cautioned that these financial statements may not be appropriate for other purposes. In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. The Company has commenced reporting under the Framework effective April 1, 2011 in these financial statements. The term "previous framework" refers to the financial reporting framework before the adoption of the Framework.

These financial statements have been prepared in accordance with the Framework and include IFRS 1. Subject to certain transition elections disclosed in note 4, the Company has consistently applied the same accounting policies in its opening statement of financial position at April 1, 2011 and throughout the year. Presentation of the financial statements is as if these policies had always been in effect. Note 4 discloses the impact of the transition to the Framework on the Company's reported financial position.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of 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 ATBIM must make estimates includes share based payments, fair value of financial instruments, depreciation of property and equipment and amortization of software.

c. Cash

Cash consists of cash on deposit held with ATB.

d. 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.

e. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are kept under review to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive income in the year of disposal.

f. Software

Software is carried at cost less accumulated amortization with cost amortized on a straight-line basis over estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBIM, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

g. Impairment of Computer Equipment and Software

Computer equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

h. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIM; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

i. Revenue Recognition

Investment management fees are based on net asset values of the Compass mutual fund portfolios and are recognized on an accrual basis. Interest revenue includes interest earned on cash deposits with ATB and is recorded on an accrual basis. Managed account revenue includes fees earned from clients for management of their investment assets.

j. Employee Future Benefits

ATBIM provides future benefits to current and past employees through defined contribution ("DC") plans.

i Accounting for Defined Contribution Plans

ATBIM provides its management employees with a registered pension plan with DC provisions. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income.

ii Short Term Employee Benefits

Short term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services. Variable pay and revenue sharing are recognized to the extent that ATBIM has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recorded in the statement of operations and comprehensive income as salaries and employee benefits.

k. Share Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB. The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date, and does not change subsequently. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

The Company is charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employee. These charges are recorded as a payable to ATB with a corresponding entry to retained earnings (deficit) similar to a distribution.

Non-market performance and service conditions are included in assumptions about the number of notes that are expected to vest. The total liability of the notes is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

l. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIM becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ATBIM derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIM derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

i Financial Assets

Financial Assets at Fair Value Through Profit or Loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated by ATB as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading consist of securities held for trading.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. ATBIM has classified cash and accounts receivable as loans and receivables.

Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method.

Impairment

ATBIM assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii Financial Liabilities

Other Liabilities Measured at Amortized Cost

Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortized cost. Accrued liabilities, due to ATB (note 6.i) and due to affiliates are classified as financial liabilities measured at amortized costs. These are measured initially at fair value and subsequently recorded at amortized cost using the effective rate method.

m. Financial instruments – Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, accounts receivable, securities held for trading, accrued liabilities, due to ATB (note 6.i) and due to affiliates.

Securities and Interest-Bearing Deposits with Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

n. Translation of Foreign Currencies

The financial statements are presented in Canadian dollars which is the functional currency of ATBIM. Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the average exchange rate for the period. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

3. Future Accounting Changes

IFRS 9, Financial Instruments – Phase 1

The IASB issued on November 12, 2009 and amended on October 28, 2010 the first phase of a project that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard defines a new way to classify and measure financial assets and liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the entity's business model to manage its financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified.

Impairment of financial asset methodology, offsetting of financial assets and liabilities, and hedging activities will be covered in future phases that will complete IFRS 9.

On December 16, 2011, IASB issued amendments to IFRS 9 Financial Instruments that defer the mandatory effective date from January 1, 2013 to January 1, 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date. The amendments also provide relief from the requirements to restate comparative financial statements for the effect of applying IFRS 9, although additional transitional disclosures will be required. Earlier application of the standard is permitted.

ATBIM is currently assessing the impact of the adoption of IFRS 9; however, since the impact of the adoption depends on the financial instruments held by ATBIM on the date of adoption, ATBIM cannot quantify it.

IFRS 13, Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS.

ATBIM is currently assessing the fair value measurement requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IAS 1, Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which improves the presentation of items of other comprehensive income. The amendments require the presentation by nature of items of other comprehensive income by distinguishing those that will not be reclassified to the statement of income in a subsequent period from those that will. The revised standard is effective for annual periods beginning on or after July 1, 2012 with early adoption permitted. ATBIM is currently assessing the impact of the adoption of this new standard.

IAS 32, Financial Instruments Presentation

On December 16, 2011, the IASB issued amendments to IAS 32, Financial Instruments Presentation. The amendments address inconsistencies in current practice when applying the offsetting criteria. The amendments clarify that the meaning of "currently" has a legally enforceable right of set off; and that some gross settlement systems may be considered equivalent to net settlement. ATBIM is currently assessing the impact of the amendments which are effective for annual periods beginning on or after January 1, 2014.

4. Impact on Adoption of the Framework

ATBIM has adopted the Framework effective April 1, 2011 (ATBIM's date of transition). Prior to the adoption of the Framework, ATBIM prepared its financial statements in accordance with Canadian GAAP.

a. Transition Elections

In preparing these financial statements in accordance with the Framework, ATBIM has applied the applicable mandatory (NI 52-107) exception from full retrospective application of the Framework. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by ATBIM under Canadian GAAP are consistent with their application under the Framework.

b. Reconciliation of Equity as Previously Reported under Canadian GAAP to IFRS

i Equity

As at April 1, 2011	Canadian GAAP $	IFRS Adjustments (see note iii) $	Framework $
Equity	2,790,596	477,476	3,268,027

ii Explanatory Notes

Previously under Canadian GAAP, Achievement Notes ("notes") were treated as a financial instrument and a liability for the notes was recorded with a corresponding entry to compensation expense for changes in the fair value of the notes at each balance sheet date.

Upon adoption of the Framework, it was determined that the notes are included in the scope of IFRS 2, Share based Payment (IFRS 2). Under the Achievement Notes Plan ATB is the issuer of the notes and has the obligation to settle the notes with employees, whereas the Company is charged by ATB for its share of the fair value changes related to employees of the Company. Accordingly, this is a group plan under IFRS 2 where the awards are considered cash-settled by the parent, but equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date, and does not change subsequently. Since the notes are issued to employees at fair value on the grant date, no compensation is recorded by the Company related to the awards when granted.

Subsequent changes in fair value of the notes are also not recognized by the Company in compensation expense for equity-settled awards. However, the Company is charged by ATB for their share of the subsequent fair value changes relating to employees providing a service to the Company as the awards vest to the employee (generally over three years). Under IFRS 2, parent company charges that are directly related to share-based awards are treated similar to a distribution. Therefore, a payable to ATB is recorded, with a corresponding entry to retained earnings (deficit), for changes in the amounts owing to the parent relating to fair value changes in the Company's share of underlying notes (see also note 6 (ii) for further description of the notes).

Adjustments were made in these financial statements to reverse compensation expense previously recorded under Canadian GAAP and to reflect distributions from the deficit for amounts charged back by the parent. The net increase to equity at April 1, 2011 was $477,476.

5. Due (To) From Affiliates

In the normal course of operations, ATBIM pays trailing commissions to ATB Securities Inc. ("ATBSI"). ATBSI collects client fees on behalf of ATBIM. ATBSI and ATB Insurance Advisors Inc. ("ATBIA") may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBSI and ATBIA. The amounts due to (from) ATBSI and ATBIA are generally settled in the following month and are not subject to interest charges.

The amounts due (to) from affiliates are as follows:

	March 31 2012 $	April 1 2011 $
Due to ATBSI	92,275	169,658
Due to ATBIA	254,138	44,375
	346,413	214,033

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBIM. The amounts due to ATB are generally settled in the following month.

The amounts due to ATB arising from these transactions are as follows:

	March 31 2012 $	April 1 2011 $
Due to ATB	1,550,751	3,665,497

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2012 was 3.00% (April 1, 2011 – 3.00%).

ii Amounts due to ATB relating to Achievement Notes

ATB sold Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB Financial that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries, including ATBIM. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of the certain ATB subsidiaries.
- Cash distributions, if any, based on the net positive dividends paid by certain ATB subsidiaries to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of the ATB subsidiaries reduces, the note holder will lose some or all of the original investment.

To the extent that notes are redeemed at fair market value, ATBIM will reimburse ATB, through an equity distribution, for payments made to employees of ATBIM in excess of the original subscription amount.

Amounts due to ATB represents ATBIM's proportionate share of increase in the fair value of the notes owing to ATB. The net change in unpaid equity-settled share based payment during the period with respect to the liability held at March 31, 2012 was $923,951.

7. Share Capital

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding:

	March 31 2012	April 1 2011
Class A common shares #	100	100
Amount	$5,000	$5,000

8. Financial Instruments

ATBIM's financial instruments consist of cash, securities held for trading, accounts receivable, accrued liabilities, due to affiliates and due to ATB (note 6.i).

Fair Value

The fair value of cash, accounts receivable, accrued liabilities, due to affiliates and amounts due to ATB (note 6.i) approximate the carrying value due to the short-term nature of these instruments.

Fair Value Hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

Securities held for trading amounting to $64,534 (2011 – $nil) have been classified as level 1 under the fair value hierarchy.

Financial Risk Management

Financial instruments are exposed to a variety of financial risks: price risk, interest rate risk, credit risk and liquidity risk. ATBIM's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIM's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

There are three types of market risk: currency risk, interest rate risk and price risk.

Currency risk: Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIM does not have any significant amounts of financial instruments denominated in foreign currencies.

Interest rate risk: ATBIM is subject to interest rate cash flow risk as its amount due to ATB is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2012, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $15,508.

Price risk: ATBIM's exposure to financial market pricing risk is limited since there are no significant financial instruments held by the Company except securities held for trading, which will fluctuate as a result of changes in market prices.

Credit Risk

ATBIM is exposed to credit risk primarily through its cash and accounts receivable. ATBIM has cash with its parent company, ATB, an Alberta Crown Agent and its subsidiaries, from which management believes the risk of loss to be insignificant. The risk inherent to accounts receivable is effectively mitigated by ATBIM's diverse customer and trading counterparty base, and the creditworthiness of the counterparty. The Company's maximum credit exposure is $8,317,360 which is the sum of cash and accounts receivable.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligation and whether additional funding is required through its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk which are considered short term (due on demand or within 30 days) include accrued liabilities, due to ATB (note 6.i) and due to affiliates.

9. Capital Disclosure

ATBIM's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBIM's ability to operate as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives.

The Company's capital management strategy is to maintain at all times working capital sufficient in size to satisfy ASC's minimum Excess Working Capital requirements. The Company has met the minimum Excess Working Capital requirement throughout the year.

10. Other Assets

	Hardware	Software	Total
Cost			
Balance at April 1, 2011	26,921	3,944,301	3,971,222
Additions	-	2,885	2,885
Disposals	-	(41,467)	(41,467)
Balance at March 31, 2012	26,921	3,905,719	3,932,640
Depreciation			
Balance at April 1, 2011	15,704	1,537,838	1,553,542
Amortization for the period	8,974	822,970	831,944
Disposals	-	(41,467)	(41,467)
Balance at March 31, 2012	24,678	2,319,341	2,344,019
Carrying Amounts			
Balance at March 31, 2012	2,243	1,586,378	1,588,621

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2012 was $831,944 (2011: $724,126). There were no impairments recognized during the year ended March 31, 2012 (2011: $nil).

11. Commitments - Contractual Obligations

ATBIM has various service arrangements that are non-cancellable contracts. The future minimum payments in respect to such are outlined below:

Year	$
2013	164,100

12. Related-Party Transactions

In the normal course of operations, ATB charges ATBIM for various administrative and selling services, as well as charging interest on amounts owing to ATB. In addition, ATBSI charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATBSI charges trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM.

A summary of these transactions are as follows:

Related Party	Transactions	Recorded As	March 31 2012 $	March 31 2011 $	March 31 2010 $
	Revenue				
ATB	Interest	Interest revenue	34,010	27,173	4,802
	Administration and Selling Expenses				
ATBSI	Trailer fees	Trailing commission	22,069,058	17,270,542	13,034,079
ATB	Professional Services	Professional fees	91,555	93,105	87,882
ATB	Information technology and rent	Other expenses	590,300	699,240	465,367
ATB	Marketing	Other expense		296,681	261,331
ATBSI	Client referral fees	Professional fees	1,675,427	1,668,675	1,297,457
ATBSI	Transaction fees	Other expenses	479,640	478,650	401,640
			24,905,980	20,506,894	15,547,757
	Interest Expense				
ATB	Other interest expense	Interest expense	14,787	12,441	4,719

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and is intended to reflect normal market terms.

Compensation of Key Management Personnel

Under IFRS key management personnel are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

Key management personnel compensation comprised:

	2012 $	2011 $
Short term employee benefits	1,259,515	1,021,151
Deferred Compensation	66,923	66,923
Retirement and post employment benefits	84,939	77,823
	1,411,377	1,165,897

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, 2012, expenses related to the defined contribution plan provision were $288,232 (2011 - $228,125).

14. Comparative Figures

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

ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

To the Board of Directors of ATB Securities Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Securities Inc., which comprise the balance sheets as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Securities Inc. as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
June 6, 2012
Edmonton, Alberta

Financial Information

Balance Sheets

As of March 31, 2012	March 31 2012	March 31 2011	April 1 2010
ASSETS	**$**	$	$
Current assets			
Cash	**1,535,165**	252,380	3,967,434
Short term investments *(note 9)*	**46,971,784**	41,472,499	29,726,056
Clients' cash held in trust	**23,559,922**	23,893,502	22,952,244
Due from clients	**8,328,424**	5,828,768	10,123,197
Due from brokers and dealers	**13,327,383**	9,067,770	8,476,677
Client fees receivable	**1,619,624**	1,631,329	1,071,500
Trailer fees receivable	**697,064**	2,171,139	1,721,771
Other receivables	**14,241**	-	-
Due from affiliates *(note 6)*	**92,275**	169,658	210,331
Prepaid expenses	**264,066**	247,078	240,320
Inventory	**-**	6,241	19,774
	96,409,948	84,740,364	78,509,304
Other assets *(note 11)*			
Computer Equipment	**1,197,085**	1,396,333	1,472,167
Software	**9,972,550**	11,316,647	6,592,208
	11,169,635	12,712,980	8,064,375
	107,579,583	97,453,344	86,573,679
LIABILITIES			
Current liabilities			
Due to clients	**41,154,428**	37,515,656	33,094,480
Due to brokers and dealers	**17,589,706**	13,744,594	16,797,564
Accrued liabilities	**5,322,753**	4,840,686	4,236,508
Variable compensation payable	**1,648,363**	1,583,514	1,105,242
Due to ATB *(note 7.i)*	**2,305,259**	5,192,123	4,051,702
Due to affiliates *(note 6)*	**540,747**	95,224	59,200
Unearned revenue	**-**	384,604	366,881
Current portion of deferred variable pay	**225,193**	133,092	72,546
	68,786,449	63,489,493	59,784,123
Long term liabilities			
Deferred variable pay	**492,425**	430,281	309,673
Due to ATB *(note 7.ii)*	**3,956,744**	1,500,382	258,813
	73,235,618	65,420,156	60,352,609
SHAREHOLDER'S EQUITY			
Share capital *(note 8)*	**128,745,000**	114,245,000	94,745,000
Deficit	**(94,401,035)**	(82,211,812)	(68,523,930)
	34,343,965	32,033,188	26,221,070
	107,579,583	97,453,344	86,573,679

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

Approved by the Board of Directors

Chairman of the Board

Chief Financial Officer

Statements of Changes in Equity

For the year ended March 31, 2012	Class A Common Shares	Share Capital $	Deficit $	Shareholder's Equity $
Balance at April 1, 2010	94,739,200	94,745,000	(68,523,930)	26,221,070
Shares issued	19,500,000	19,500,000	-	19,500,000
Share based payment	-	-	(1,294,728)	(1,294,728)
Net loss for the year	-	-	(12,393,154)	(12,393,154)
Balance at March 31, 2011	114,239,200	114,245,000	(82,211,812)	32,033,188
Shares issued	14,500,000	14,500,000	-	14,500,000
Share based payment	-	-	(2,589,459)	(2,589,459)
Net loss for the year	-	-	(9,599,764)	(9,599,764)
Balance at March 31, 2012	128,739,200	128,745,000	(94,401,035)	34,343,965

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

Statements of Operations and Comprehensive Loss

For the year ended March 31, 2012	March 31, 2012 $	March 31, 2011 $
Revenue *(note 13)*		
Mutual fund commissions	**30,150,933**	24,934,732
Client fees	**6,097,858**	4,955,286
Other commissions	**4,178,449**	4,687,304
Client referral fees	**2,209,468**	2,311,385
Securities commissions	**716,772**	876,036
Other revenue	**781,849**	740,748
Interest income	**599,029**	475,463
	44,734,358	38,980,954
Administration and Selling expenses *(note 13)*		
Salaries and employee benefits *(note 14)*	**19,839,858**	20,246,521
Variable compensation expense	**17,749,181**	15,512,479
Other expenses	**9,117,206**	10,122,497
Professional fees	**5,096,845**	3,737,324
Amortization expense (note 11)	**2,438,749**	1,646,050
Interest expense	**92,283**	109,237
	54,334,122	51,374,108
Net loss and comprehensive loss for the year	**9,599,764**	12,393,154

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

Statements of Cash Flows

For the year ended March 31, 2012	March 31, 2012	March 31, 2011
Cash provided from (used in)	**$**	$
Operating activities		
Net loss for the year	**(9,599,764)**	(12,393,154)
Items not affecting cash		
Amortization of computer equipment	**199,248**	65,281
Amortization of software	**2,239,501**	1,580,769
	(7,161,015)	(10,747,104)
Net change in non-cash working capital items		
Cash received from clients and brokers/dealers	**1,058,195**	4,130,284
Decrease (increase) in client fees receivable	**11,705**	(559,829)
Decrease (increase) in trailer fees receivable	**1,474,075**	(449,368)
(Increase) in prepaid expenses	**(16,988)**	(6,758)
Decrease in inventory	**6,241**	13,533
(Increase) in client dividend's receivable	**(14,241)**	-
Increase in accrued liabilities	**482,067**	604,178
Net decrease in due to/(from) affiliates	**522,906**	76,697
Increase in variable compensation payable	**64,849**	478,272
(Decrease) increase in unearned revenue	**(384,604)**	17,723
Increase in deferred variable pay	**154,245**	181,154
	3,358,450	4,485,886
Net cash used in operating activities	**(3,802,565)**	(6,261,218)
Investing activities		
(Increase) in short term investments	**(5,499,285)**	(11,746,443)
Purchase of computer equipment and software	**(895,404)**	(6,294,655)
Net cash used in investing activities	**(6,394,689)**	(18,041,098)
Financing activities		
Issuance of share capital	**14,500,000**	19,500,000
Equity settled share based payment	**(133,097)**	(53,159)
(Decrease) increase in due to ATB	**(2,886,864)**	1,140,421
Net cash from financing activities	**11,480,039**	20,587,262
Net change in cash	**1,282,785**	(3,715,054)
Cash – Beginning of year	**252,380**	3,967,434
Cash – End of year	**1,535,165**	252,380
Supplementary information		
Interest paid	**92,283**	109,237
Interest received	**599,029**	475,463

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

Financial Information

Notes to the Financial Statements

March 31. 2012

1. Incorporation, Operations and Economic Dependence

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to facilitate client wealth management services. ATBSI was incorporated in Alberta under the Business Corporations Act (Alberta) on February 6, 2003. ATBSI commenced operations on July 26, 2003 and amalgamated with an affiliated company, ATB Investment Services Inc. ("ATBIS"), also a wholly owned subsidiary of ATB, on September 20, 2010. As a provincial Crown corporation, ATBSI is exempt from income tax. ATBSI is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investors Protection Fund ("CIPF").

For the year ended March 31, 2012, ATBSI reported a net loss of $9,599,764 (2011 - $12,393,154), negative cash flow from operating activities of $3, 802,565 (2011 – $6,261,218) and an accumulated deficit of $94,401,035 (2011 – $82,211,812). A total of $14,500,000 of capital was injected in the current fiscal year (2011 - $19,500,000). The continuing operations of ATBSI remain dependent upon ATB's ongoing financial support.

The address of the Company's registered office is:
9888 Jasper Avenue
Edmonton, Alberta T5J 1P1

These financial statements were authorized for issue by the Board of Directors on June 6, 2012.

2. Significant Accounting Policies

a. Basis of Preparation

Adoption of International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are ATBSI's first IFRS financial statements and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of ATBSI is provided in note 4.

The 2011 comparative figures presented in these financial statements have been restated to take into account these new standards. These statements should be read in conjunction with the financial statements for the year ended March 31, 2011 prepared in accordance with Canadian GAAP.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of 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 ATBSI must make estimates includes share based payments, fair value of financial instruments, depreciation of property and equipment and amortization of software.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Short Term Investments

Short term investments consist of Canadian treasury bills with maturity dates of less than one year.

e. Clients' Cash Held in Trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and Tax Free Savings Accounts (TFSAs) segregated in trust accounts with Canadian Western Trust. Corresponding liabilities are included in Due to clients. Client balances are reported on a trade date basis.

f. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years with certain equipment having a useful life of 10 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are kept under review to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive loss in the year of disposal.

g. Software

Software are carried at cost less accumulated amortization with cost amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years, with certain software having a useful life of 10 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBSI, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

h. Impairment of Equipment and Software

Equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

i. Due (To) From Clients and Due (To) From Brokers and Dealers

Due (to) clients represents cash balances in client accounts. These amounts are due on demand.

Due from clients are debit positions in client accounts. The majority of the amounts relate to margin balances and pending trades.

Due (to) from brokers and dealers represents amounts related to trades which have been initiated but not settled.

Due (to) from clients and due (to) from brokers and dealers amounts are both recorded on a trade date basis.

j. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBSI; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

k. Revenue and Expense Recognition

ATBSI earns commission revenue from third party mutual funds and affiliates (note 13). Commission revenue earned on mutual fund sales and securities transactions is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Other revenue is recorded on an accrual basis and includes Registered Retirement Savings Plan (RRSP) administration fees, Guaranteed Investment Certificate (GIC) referral revenue, interest income, client referral fee income, and client transaction fee income. A 25 bps GIC referral fee is paid by ATB to ATBSI based on the average amount of GIC's held by the Company. Insurance referral fees are paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate, to ATBSI based on revenues generated by the insurance product sales. Client referral fees are paid by ATB Investment Management Inc. ("ATBIM"), an affiliate, to ATBSI based on actual commissions paid to ATBSI sales staff. Transaction fees are paid by ATBIM to ATBSI based on fair market values of client trade processing.

Unearned revenue relates to annual RRSP administration fees on client accounts that are amortized into income over the calendar year.

l. Employee Future Benefits

ATBSI provides future benefits to current and past employees through defined contribution ("DC") plans.

i Accounting for Defined Contribution Plans

ATBSI provides its management employees with a registered pension plan with DC provisions. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive loss.

ii Short Term Employee Benefits

Short term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services. Variable pay and revenue sharing are recognized to the extent that ATBSI has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recorded in the statement of operations and comprehensive loss as salaries and employee benefits or variable compensation expense.

m. Share Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB. The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date, and does not change subsequently. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

The Company is charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employee. These charges are recorded as a payable to ATB with a corresponding entry to retained earnings (deficit) similar to a distribution.

Non-market performance and service conditions are included in assumptions about the number of notes that are expected to vest. The total liability of the notes is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

n. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBSI becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ATBSI derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBSI derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

i Financial Assets

Financial Assets at Fair Value Through Profit or Loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated by ATBSI as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading consist of cash and cash equivalents and short term investments.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. ATBSI has classified client's cash held in trust, due from clients, due from brokers and dealers, client fees receivable and due from affiliates as loans and receivables.

Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method.

Impairment

ATBSI assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii Financial Liabilities

Other Liabilities Measured at Amortized Cost

Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortized cost. Due to clients, due to brokers and dealers, advances from related parties, and accrued liabilities are classified as financial liabilities measured at amortized costs. These are measured initially at fair value and subsequently recorded at amortized cost using the effective rate method.

o. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include clients' cash held in trust, due (to) from clients, due (to) from brokers and dealers, client fee receivable, trailer fees receivable, inventory, due (to) from affiliates and accrued liabilities.

Securities and Interest-Bearing Deposits With Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

p. Translation of Foreign Currencies

The financial statements are presented in Canadian dollars which is the functional currency of ATBSI. Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues 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 the statement of operations and comprehensive loss.

3. Future Accounting Changes

IFRS 9, Financial Instruments – Phase 1

The IASB issued on November 12, 2009 and amended on October 28, 2010 the first phase of a project that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard defines a new way to classify and measure financial assets and liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the entity's business model to manage its financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified.

Impairment of financial asset methodology, offsetting of financial assets and liabilities, and hedging activities will be covered in future phases that will complete IFRS 9.

On December 16, 2011, IASB issued amendments to IFRS 9 Financial Instruments that defer the mandatory effective date from January 1, 2013 to January 1, 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date. The amendments also provide relief from the requirements to restate comparative financial statements for the effect of applying IFRS 9, although additional transitional disclosures will be required. Earlier application of the standard is permitted.

ATBSI is currently assessing the impact of the adoption of IFRS 9; however, since the impact of the adoption depends on the financial instruments held by ATBSI on the date of adoption, ATBSI cannot quantify it.

IFRS 13, Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS.

ATBSI is currently assessing the fair value measurement requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IAS 1, Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which improves the presentation of items of other comprehensive income. The amendments require the presentation by nature of items of other comprehensive income by distinguishing those that will not be reclassified to the statement of income in a subsequent period from those that will. The revised standard is effective for annual periods beginning on or after July 1, 2012 with early adoption permitted. ATBSI is currently assessing the impact of the adoption of this new standard.

IAS 32, Financial Instruments Presentation

On December 16, 2011, the IASB issued amendments to IAS 32, Financial Instruments Presentation. The amendments address inconsistencies in current practice when applying the offsetting criteria. The amendments clarify that the meaning of "currently" has a legally enforceable right of set off; and that some gross settlement systems may be considered equivalent to net settlement. ATBSI is currently assessing the impact of the amendments which are effective for annual periods beginning on or after January 1, 2014.

4. Impact of IFRS Adoption

ATBSI has adopted IFRS effective April 1, 2010 (ATBSI's date of transition). Prior to the adoption of IFRS, ATBSI prepared its financial statements in accordance with Canadian GAAP.

a. Transition Elections

In preparing these financial statements in accordance with IFRS 1, ATBSI has applied the mandatory exception from full retrospective application of IFRS. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by ATBSI under Canadian GAAP are consistent with their application under IFRS.

b. Reconciliation of Net Income and Equity as Previously Reported under Canadian GAAP to IFRS

i Net Loss and Comprehensive Loss

The net loss reported by ATBSI under Canadian GAAP for the year ended March 31, 2011 was $14,284,631. This amount was adjusted to $12,393,154 under IFRS. The decrease relates to the change in accounting treatment for achievement notes as described in note (iii) below:

ii Equity

As at March 31, 2011	**Canadian GAAP** $	**IFRS Adjustments (see note iii)** $	**IFRS** $
Deficit			
Balance at beginning of the year	(69,210,356)	686,426	(68,523,930)
Share based payment	-	(1,294,728)	(1,294,728)
Net Loss	(14,284,631)	1,891,477	(12,393,154)
Deficit	(83,494,987)	1,283,175	(82,211,812)

As at April 1, 2010	**Canadian GAAP** $	**IFRS Adjustments (see note iii)** $	**IFRS** $
Deficit			
Balance at beginning of the year	(56,074,562)	-	(56,074,562)
Share based payment	-	(258,813)	(258,813)
Net Loss	(13,135,794)	945,239	(12,190,555)
Deficit	(69,210,356)	686,426	(68,523,930)

iii Explanatory Notes

Previously under Canadian GAAP, Achievement Notes ("notes") were treated as a financial instrument and a liability for the notes was recorded with a corresponding entry to compensation expense for changes in the fair value of the notes at each balance sheet date.

Upon adoption of IFRS, it was determined that the notes are included in the scope of IFRS 2, Share based Payment (IFRS 2). Under the Achievement Notes Plan ATB is the issuer of the notes and has the obligation to settle the notes with employees, whereas the Company is charged by ATB for its share of the fair value changes related to employees of the Company. Accordingly, this is a group plan under IFRS 2 where the awards are considered cash-settled by the parent, but equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date, and does not change subsequently. Since the notes are issued to employees at fair value on the grant date, no compensation is recorded by the Company related to the awards when granted.

Subsequent changes in fair value of the notes are also not recognized by the Company in compensation expense for equity-settled awards. However, the Company is charged by ATB for their share of the subsequent fair value changes relating to employees providing a service to the Company as the awards vest to the employee (generally over three years). Under IFRS 2, parent company charges that are directly related to share-based awards are treated similar to a distribution. Therefore, a payable to ATB is recorded, with a corresponding entry to retained earnings (deficit), for changes in the amounts owing to the parent relating to fair value changes in the Company's share of underlying notes (see also note 7 (ii) for further description of the notes).

Adjustments were made in these financial statements to reverse compensation expense previously recorded under Canadian GAAP and to reflect distributions from the deficit for amounts charged back by the parent. The net increase to equity at each balance sheet date follows:

	$
April 1, 2010	686,426
March 31, 2011	1,283,175

5. Financial Instruments

Fair Value Hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

Short term investments are composed entirely of Canadian Treasury Bills ("T-Bills") held as part of ATBSI's liquidity management program. The market value of T-Bills are provided to ATBSI by a third party. Prices are estimated based on recent activity in an active over the counter market. These short term investments amounting to $46,971,784 (March 31, 2011 - $41,472,499) are classified as level 2 under the fair value hierarchy.

6. Due (To) From Affiliates

In the normal course of operations, ATBSI receives trailing commissions and collects client management fees on behalf of ATB Investment Management Inc. ("ATBIM"), and receives referral fees from ATB Insurance Advisors Inc. ("ATBIA"). ATBIM and ATBIA may pay for certain expenses on behalf of ATBSI. Alternatively, ATBSI may pay for certain expenses on behalf of ATBIM and ATBIA. These amounts are duly recorded as payables and receivables in each of ATBSI's, ATBIM's, and ATBIA's accounts. The amounts due (to) from affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges.

The amounts due (to) from affiliates are as follows:

	March 31 2012 $	March 31 2011 $	April 1 2010 $
Due From ATBIM	92,275	169,658	210,331
Due From ATBIA	(540,747)	(95,224)	(59,200)
	(448,472)	74,434	151,131

7. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBSI. The amounts due to ATB are generally settled in the following month.

The amounts due to ATB arising from these transactions are as follows:

	March 31 2012 $	March 31 2011 $	April 1 2010 $
Due to ATB	2,305,259	5,192,123	4,051,702

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2012 was 3.00% (March 31, 2011 – 3.00%, April 1, 2010 – 2.25%).

ii Amounts due to ATB relating to Achievement Notes

ATB sold Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB Financial that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries, including ATBSI. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of the certain ATB subsidiaries.
- Cash distributions, if any, based on the net positive dividends paid by certain ATB subsidiaries to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of the ATB subsidiaries reduces, that the note holder will lose some or all of the original investment.

To the extent that notes are redeemed at fair market value, ATBSI will reimburse ATB, through an equity distribution, for payments made to employees of ATBSI in excess of the original subscription amount.

The due to ATB represents ATBSI's proportionate share of increase in the fair value of the notes owing to ATB. The total change in unpaid equity-settled share based payment during the period with respect to the liability held at March 31, 2012 was $2,462,799 (March 31, 2011 - $1,241,569, April 1, 2010 - $258,813).

8. Share Capital

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value.
Unlimited number of Class B non-voting, common shares without nominal or par value.
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share.

Issued and outstanding:

	March 31 2012	March 31 2011	April 1 2010
Class A common shares #	128,739,200	114,239,200	94,739,200
Amount	$ 128,745,000	$ 114,245,000	$ 94,745,000

9. Financial Instruments – Risk Management

ATBSI's financial instruments consist of cash, short term investments, clients' cash held in trust, due (to) from clients, due (to) from brokers and dealers, client fees receivable, trailer fees receivable, inventory, due (to) from affiliates, accrued liabilities and due to ATB.

Financial Risk Management

ATBSI's financial instruments are exposed to a variety of financial risks: price risk, interest rate risk, currency risk, credit risk and liquidity risk. ATBSI's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBSI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Fair Value

The fair value of due (to) from clients, due (to) from brokers and dealers, client fees receivable, trailer fees receivable, inventory, due (to) from affiliates, accrued liabilities and amounts due to ATB approximate the carrying value due to the short term nature of these instruments.

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, 2012, US dollar denominated cash amounted to US $731,367, due from clients amounted to US $932,028, due from brokers and dealers amounted to US $224,905, accrued liabilities amounted to US $42,557, due to clients amounted to US $777,317 and due to brokers and dealers amounted to US $874,713. A $0.01 change in US exchange rates would result in a foreign exchange gain or loss of approximately $1,937.

Interest rate risk: ATBSI is subject to interest rate cash flow risk as its amount due to ATB and short term investments are subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2012, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB is approximately $23,053.

As at March 31, 2012 ATBSI held $46,971,784 (March31, 2011 - $41,472,499, April 1, 2010 - $29,726,056) in highly liquid treasury bills. At March 31, 2012 the three series of treasury bills held were earning yields of 92bps, 91bps and 91bps until they mature on April 12, 2012, April 26, 2012 and May 24, 2012.

As at March 31, 2012, if interest rates were to change by 25bps, the change in interest income is approximately $117,429.

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 primarily through its cash, short term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable and due from affiliates. ATBSI cash deposits are held with reputable financial institutions and cash and due from affiliate balances held with its parent company, ATB, an Alberta Crown Agent, and its subsidiaries, from which management believes the risk of loss to be insignificant.

Short term investments consist of Canadian treasury bill holdings. The risk inherent in due from clients, due from brokers and dealers, client fees receivable and trailer fees receivable is effectively mitigated by ATBSI's diverse customer and trading counterparty base, and the creditworthiness of the counterparty. The Company's maximum credit exposure is $93,977,695 which is the sum of cash, short term investments, clients' cash held in trust, due from clients, due from affiliates, due from brokers/dealers, client fees receivable and trailer fees receivable.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligation and whether additional funding is required through its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk which are considered short term (due on demand or within 30 days) include due to clients, due to brokers and dealers, accrued liabilities, due to ATB and due to affiliates.

10. Capital Disclosure

ATBSI's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBSI's ability to operate as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives; and
- To maintain adequate risk adjusted capital as required by the Investment Industry Regulatory Organization of Canada (IIROC).

Regulatory Capital

IIROC sets and monitors capital requirements for the Company to protect its clients and counterparties. The Company is required to maintain a prescribed minimum level of risk adjusted capital ("RAC") in order to be able to meet its liabilities and pass Early Warning tests. RAC is calculated in accordance with requirements as IIROC may from time to time prescribe. RAC is monitored daily and calculated weekly by ATBSI to ensure compliance with IIROC requirements.

There were no changes to IIROC Rules that significantly impacted the Company's calculation of RAC during the year.

As at March 31, 2012, ATBSI had RAC of $20,108,000, which exceeded regulatory requirements set out by IIROC.

In thousands of dollars	**2012**	**2011**
Total capital	34,344	30,750
Less: Total non-allowable assets	13,854	16,932
Net allowable assets	20,490	13,818
Less: Minimum capital	250	250
Less: Total margin required	132	122
Less: Securities concentration charge	-	-
RAC	20,108	13,446

Under IIROC rules:

- Assets are classified as allowable or non-allowable. Allowable assets are considered to be balances that are liquid and easily convertible into cash or cash equivalents. Non-allowable assets are assets that cannot be disposed of in a short time frame and can include amounts receivable from certain counterparties, commissions and fees receivable, interest and dividends receivable, deferred tax assets, intangible assets, property and equipment, investments in subsidiaries, and other assets.

- Margin rates are established by IIROC to quantify the risk of potential market loss of client and/or inventory security holdings.

- A securities concentration charge is the result of a high exposure to a single security or group of securities of the same issuer, based on historical trading experiences of the type of security.

ATBSI also met all the early warning tests as prescribed by IIROC.

11. Other Assets

	Computer Equipment	Software	Computer Equipment under development	Software under development	Total
Cost					
Balance at April 1, 2010	433,439	7,902,874	1,051,705	943,888	10,331,906
Transfer to completed asset	1,084,257	6,949,232	(1,084,257)	(6,949,232)	-
Additions	-	-	32,552	6,262,103	6,294,655
Balance at March 31, 2011	1,517,696	14,852,106	-	256,759	16,626,561
Balance at April 1, 2011	1,517,696	14,852,106	-	256,759	16,626,561
Transfer to completed asset	-	526,548	-	(526,548)	-
Additions	-	-	-	895,405	895,405
Disposals	-	(215,819)	-	-	(215,819)
Balance at March 31, 2012	1,517,696	15,162,835	-	625,616	17,306,147
Depreciation					
Balance at April 1, 2010	12,977	2,254,554	-	-	2,267,531
Amortization for the period	108,387	1,537,663	-	-	1,646,050
Balance at March 31, 2011	121,363	3,792,218	-	-	3,913,581
Balance at April 1, 2011	121,363	3,792,218	-	-	3,913,581
Amortization for the period	199,248	2,239,502	-	-	2,438,750
Disposals	-	(215,819)	-	-	(215,819)
Balance at March 31, 2012	320,611	5,815,901	-	-	6,136,512
Carrying Amounts					
Balance at April 1, 2010	420,462	5,648,320	1,051,705	943,888	8,064,375
Balance at March 31, 2011	1,396,333	11,059,889	-	256,759	12,712,980
Balance at March 31, 2012	1,197,085	9,346,934	-	625,616	11,169,635

Amortization expense charged to the statement of operations and comprehensive loss for the year ended March 31, 2012 was $2,438,749 (2011: $1,646,050). There were no impairments recognized during the year ended March 31, 2012 (2011: $nil).

12. Commitments - Contractual Obligations

ATBSI is committed to payments under service agreements for data processing services and software licenses, including support and maintenance services for various projects. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

Year	$
2013	597,000
2014	597,000
2015	597,000
2016	597,000
2017	199,000
2018 and thereafter	-
	2,587,000

13. Related-Party Transactions

In the normal course of operations, ATBSI earns income in the form of trailer fees, interest revenue and other income from ATB, ATBIA and ATBIM. ATB also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB.

A summary of these transactions are as follows:

Related Party	Transactions	Recorded As	March 31 2012 $	March 31 2011 $	April 1 2010 $
	Revenue				
ATBIM	ATBIM Trailer fees	Mutual fund commissions	22,069,058	17,270,542	13,034,079
ATBIM	ATBIM Referral fees	Client referral fees	1,675,427	1,668,675	1,297,457
ATBIM	ATBIM Transaction fees	Client referral fees	479,640	478,650	401,640
ATBIA	ATBIA Insurance referrals	Client referral fees	54,401	164,060	228,171
ATB	ATB GIC Referral fees	Other commissions	4,193,760	4,687,304	4,686,821
ATB	ATB Interest income	Interest revenue	43,575	25,771	18,431
			28,515,861	24,295,002	19,666,599
	Administration and Selling Expenses				
ATB	ATB Selling	Processing fees	-	34,993	152,677
ATB	ATB IT and Rent	Other expenses	4,110,244	2,953,485	2,498,867
ATB	ATB Marketing	Other expenses	-	806,133	951,764
ATB	ATB Professional services	Professional fees	351,774	427,401	417,634
ATB	ATB Training	Professional Fees	-	400,297	671,631
			4,462,018	4,622,310	4,692,573
	Interest Expense				
ATB	ATB Other interest Expense	Interest expense	51,769	37,664	21,030
ATB	ATB Standby fees	Interest expense	40,514	71,514	-
			92,283	109,178	21,030

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and is intended to reflect normal market terms.

Compensation of Key Management Personnel

Under IFRS key management personnel are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

Key management personnel compensation comprised:

	2012	2011
Short term employee benefits	2,492,546	1,836,597
Deferred Compensation	251,618	251,618
Retirement and post employment benefits	160,035	125,749
	2,904,199	2,213,965

14. Employee Future Benefits

ATBSI provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in Salaries and employee benefits in the Statement of Operations and Comprehensive Loss. For the year ended March 31, 2012, expenses related to the defined contribution plan provision were $1,959,421 (2011 - $1,703,883).

15. Credit Facility

ATBSI has access to a $15,000,000 Operating Loan Facility with ATB. The credit facility is unsecured. Interest on the facility is calculated based on prime less 0.25%, which is 2.75% at March 31, 2012. No amounts have been drawn on the facility at March 31, 2012 (2011 - $nil) and a standby fee of $40,513 (2011 - $71,514) was paid during the year on the undrawn portion.

16. Comparative Figures

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

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Years Ended December 31, 2011

These Credit Union Deposit Guarantee Corporation (CUDGC) Financial Statements are a copy from the CUDGC 2011 Annual Report. A complete copy of the CUDGC Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the CUDGC website at www.cudgc.ab.ca.

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements
I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of income and comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

March 7, 2012
Edmonton, Alberta

Statements of Financial Position

As at

(thousands of dollars)	Notes	December 31 2011	December 31 2010	January 1 2010
ASSETS				
Current Assets				
Cash and cash equivalents	3.2, 5	$ 13,704	$ 24,809	$ 23,106
Accrued interest receivable		976	890	707
Assessments receivable		4,302	4,724	4,537
Prepaid expenses		105	43	53
Current tax receivable	3.5, 14	40	–	–
Total Current Assets		**19,127**	**30,466**	**28,403**
Non Current Assets				
Investments	3.3, 6	163,665	140,985	129,893
Property and equipment	3.4, 9.1	758	177	157
Intangible assets	3.4, 9.2	126	65	60
Total Non Current Assets		**164,549**	**141,227**	**130,110**
TOTAL ASSETS		**$ 183,676**	**$ 171,693**	**$ 158,513**
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	10	$ 1,532	$ 966	$ 791
Provision for financial assistance	3.6, 11	969	1,200	800
Current tax liability		–	152	43
Total Current Liabilities		**2,501**	**2,318**	**1,634**
Non Current Liabilities				
Deferred tax liability		1,704	919	572
Special contribution payable	12	–	18,153	17,625
Long-term unclaimed credit union balances		847	815	731
Total Non Current Liabilities		**2,551**	**19,887**	**18,928**
Commitments and contingencies	13			
EQUITY				
Deposit guarantee fund		172,163	146,022	135,760
Accumulated other comprehensive income		6,461	3,466	2,191
Total Equity		**178,624**	**149,488**	**137,951**
TOTAL LIABILITIES AND EQUITY		**$ 183,676**	**$ 171,693**	**$ 158,513**

The accompanying notes are part of these financial statements.

Approved by the Board: March 7, 2012

Original signed by
Ken Motiuk, Director

Original signed by
Loraine Oxley, Director

Financial Information

Financial Information

Statements of Net Income and Comprehensive Income

For the years ended

(thousands of dollars)	Notes	December 31 2011	December 31 2010
DEPOSIT GUARANTEE FUND			
Revenues:			
Assessment revenue	3.7.1, 15	$ 25,687	$ 27,990
Investment income	3.7.2, 6.4	6,471	5,601
Gains (losses) on disposal of investments	3.3, 6.4	866	1,613
		33,024	**35,204**
Expenses:			
Provision for (recovery of) financial assistance	11	84	364
Special contribution	12	–	18,153
Administration expenses	19	6,689	6,217
		6,773	**24,734**
Income before income taxes		26,251	10,470
Income taxes	14	110	208
NET INCOME FOR THE YEAR		**26,141**	**10,262**
Other comprehensive income			
Other comprehensive income		4,657	3,227
Comprehensive income tax expense		(978)	(678)
Reclassification to net income, net of tax		(684)	(1,274)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**2,995**	**1,275**
TOTAL NET INCOME AND COMPREHENSIVE INCOME		**$ 29,136**	**$ 11,537**

The accompanying notes are part of these financial statements.

Statements of Changes in Equity

For the years ended

(thousands of dollars)	Accumulated Other Comprehensive Income	Deposit Guarantee Fund	Total Equity
Balance as at January 1, 2010	**$ 2,191**	**$ 135,760**	**$ 137,951**
Net income for the year	–	10,262	10,262
Other comprehensive income for the year, net of tax	1,275	–	1,275
Balance as at December 31, 2010	**3,466**	**146,022**	**149,488**
Net income for the year	–	26,141	26,141
Other comprehensive income for the year, net of tax	2,995	–	2,995
Balance as at December 31, 2011	**$ 6,461**	**$ 172,163**	**$ 178,624**

The accompanying notes are part of these financial statements.

Financial Information

Statements of Cash Flows

For the years ended

(thousands of dollars)	December 31 2011	December 31 2010
Operating activities:		
Assessments received	$ 26,110	$ 27,803
Investment income received	6,063	5,493
Financial assistance recovered (paid)	(315)	36
Interest and bank charges (paid)	(1)	(1)
Income taxes recovered (paid)	(314)	(90)
(Paid) to suppliers and employees	(5,951)	(5,850)
Special contribution (paid)	(18,153)	(17,625)
Net cash flows from operating activities	**7,439**	**9,766**
Investing activities:		
Purchase of investments, net	(17,699)	(7,940)
Purchase of property and equipment	(759)	(123)
Purchase of intangible assets	(86)	–
Net cash flows used in investing activities	**(18,544)**	**(8,063)**
Cash inflow (outflow)	(11,105)	1,703
Cash and cash equivalents at beginning of year	24,809	23,106
Cash and cash equivalents at end of year	**$ 13,704**	**$ 24,809**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

NOTE 1 NATURE OF ORGANIZATION

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The primary purposes of the Corporation are to focus all of its operational activities on achieving its legislated objectives including:

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act*.
- Review, advise and direct on credit union sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits.

The *Credit Union Act* provides that the Province of Alberta ("Province") will ensure that this obligation of the Corporation is carried out. As at December 31, 2011, credit unions in Alberta held deposits, including accrued interest, totaling $17.1 billion (2010 – $16.5 billion).

To meet its primary purposes the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation assesses credit unions to support the Deposit Guarantee Fund. The Deposit Guarantee Fund's statements of net income and comprehensive income includes deposit guarantee assessments received from credit unions, investment income, provision for financial assistance, special contribution (final payment made January, 2011), administration expenses and other related revenues and expenses.

The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamation, arrangements, liquidation or dissolution. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 BASIS OF PRESENTATION

2.1 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Corporation's first financial statements prepared in accordance with IFRS and *IFRS 1: First-time Adoption of International Financial Reporting Standards* has been applied. The accounting policies have been applied consistently to the current period presented and in preparing the opening IFRS Statements of Financial Position at January 1, 2010 for the purposes of the transition to IFRS.

At transition to IFRS the Corporation applied *IFRS 1* which requires the Corporation to reconcile the Deposit Guarantee Fund earnings and Accumulated Other Comprehensive Income for prior periods presented. No IFRS optional exemptions were taken. An explanation on how the transition to IFRS has affected the reported financial position, financial performance and cash flows is provided in Note 4 Impact of IFRS Adoption.

The financial statements were approved by the Board of Directors on March 7, 2012.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, which are measured at fair value in the Statements of Financial Position. Statements are in Canadian dollars and rounded to the nearest thousand.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Use of Estimates

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the provision for (recovery of) financial assistance, assessment revenue, and the fair value of investments. Actual results may differ from these estimates depending upon certain future events and uncertainties.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Cash and Cash Equivalents

Cash and cash equivalents are on deposit in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2011, securities held in CCITF have a rate of return of 1.3% per annum (2010: 0.8%).

3.3 Investments and Investment Income

The Corporation's investment policy permits investments in fixed income securities on a segregated basis and units of a bond pool. Investments are independently managed by the Alberta Investment Management Corporation ("AIMCo"). AIMCo is a provincial corporation responsible to the Minister of Finance. The Corporation classified all investments in fixed income securities and the units in the Universe Fixed Income Pool ("Bond Pool") as available-for-sale ("AFS").

Investments are recorded using trade date accounting and are carried at fair value as detailed in Note 6.1 Fair Value. Substantially all securities are purchased with the intention to hold them to maturity. However, as securities may be sold prior to maturity, investments, including the units in the Bond Pool, are classified as AFS.

Gains and losses on disposal of investments are shown on the statements of income and comprehensive income and are recognized proportionately based on number of units sold versus the number of units held. Interest income and dividend income are recognized when earned and are included in investment income. Any discounts or premiums are amortized over the life of the investment using the effective interest method.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, an impairment loss equivalent to the difference between cost and current fair value is recorded against investment income in the statements of income and comprehensive income. Other considerations include 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 based on anticipated recovery. For 2011, no adjustments for impairment losses are required.

3.4 Property and Equipment and Intangible Assets

Property and equipment and intangible assets are stated in the Statements of Financial Position at historical cost, less accumulated depreciation, amortization and accumulated impairment losses.

Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully depreciated are maintained on the books at original cost less accumulated depreciation and show zero net book value.

Depreciation, amortization and impairment are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight-line
Leasehold improvements	Straight-line over lease term
Intangible assets (1)	One year straight line

(1) Intangible assets include the purchase of computer software

Gains and losses on disposal of an item of property and equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and intangible assets, and are recognized net of depreciation and amortization as part of administration expenses.

3.5 Income Taxes

The Corporation records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the taxation authorities.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5.1 Current Tax

The current tax recoverable is based on taxable income for the year. Taxable income differs from net income as reported in the statements of net income and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax recoverable is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.5.2 Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

3.6 Provision for Financial Assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. To meet the obligation for financial assistance described in Note 1 Nature of Organization, the Corporation provides for a provision for financial assistance payments based on three main components, as follows:

1. When the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and results from an indemnity agreement that has been entered into with a credit union due to outcomes described in Note 1 Nature of Organization.
3. Where, in the Corporation's opinion, there is the potential for financial assistance based on an analysis of the inherent risk in the credit union system.

3.7 Revenue Recognition

3.7.1 Assessment Revenue

Credit union deposit guarantee assessments and special assessments are classified as revenue and are recognized when:

- The amount of revenue can be measured reliably; and
- It is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received four times per year.

Special assessments are recognized when earned. Special assessments would be charged only if, in the opinion of the Corporation's Board, the deposit guarantee fund is, or is about to be, significantly below the target level. Special assessments require Ministerial approval prior to being charged.

3.7.2 Interest and Dividend Revenue

Income and dividend revenue from investments are recognized when the right to receive payments has been established and it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest and dividend revenue from a financial asset are recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend revenue is recognized when it is known that a dividend has been declared or upon receipt of payment.

3.8 Financial Instruments

3.8.1 Classification

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments. Trade date accounting is used.

Classifications are described below:

Cash and cash equivalents	Fair Value through Net Income (FVTPL)
Accrued interest receivable and assessments receivable	Loans and Receivables
Investments – segregated portfolio	Available-for-sale (AFS)
Investments – bond pool	Available-for-sale (AFS)
Other investments – shares	Available-for-sale (AFS)
Provision for financial assistance, and special contribution payable	Financial liabilities
Accounts payable and accrued liabilities	Financial liabilities
Long-term unclaimed credit union balances	Financial liabilities

3.8.2 Fair Value through Net Income (FVTPL)

FVTPL assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the Statements of Financial Position date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized and unrealized on disposals are included in income. The Corporation has designated cash and cash equivalents as FVTPL.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Corporation elects to designate on initial recognition as instruments that it will measure at fair value and are included in interest expense.

3.8.3 Available-for-sale (AFS)

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or fair value through net income investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other comprehensive income.

For available-for-sale financial assets that do not have quoted market prices cost represents reasonable fair value for these assets.

3.8.4 Loans and Receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

3.8.5 Financial liabilities

Accounts payable and accrued liabilities, provision for financial assistance, special contribution payable, lease inducement accrual and long-term unclaimed credit union accounts have been classified as financial liabilities and have been recorded at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments. With the exception of the lease inducement accrual which is amortized over the lease term, unclaimed balance accounts and the provision for financial assistance, which may be dependent on the terms within an indemnity agreement, all other liabilities are short term in nature.

3.8.6 Impairment of financial assets

Financial assets, other than those designated as FVTPL, are assessed for indicators of impairment on a quarterly basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When an AFS financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are reclassified to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income. The carrying amount of the investment at the date the impairment is reversed cannot exceed what the amortized cost would have been had the impairment not been recognized.

3.8.7 Effective interest method

The Corporation uses the effective interest method to recognize interest income or expense which includes premiums or discounts earned on or incurred for financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.8.8 Transaction costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

3.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Corporation does not have finance leases. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

The current lease for office premises commenced for a five year period beginning September 1, 2011 with an option to extend the lease term for an additional five years.

3.10 Employee Benefits

The Corporation has a defined contribution plan and pays fixed contributions to a separate entity with no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense on the statements of income in the periods during which services are rendered by employees.

3.10.1 Termination benefits

The Corporation recognizes termination benefits only when there is evidence that the employee is leaving the Corporation. Termination amounts are either paid with the final pay or are accrued to be paid at the appropriate time. For example, incentive pay accruals may be required based on date of termination but are not paid until final corporate scorecard results have been determined and approved.

3.10.2 Short-term employee benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

3.11 Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")

Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on segregated and pooled funds classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statements of Net Income and Comprehensive Income and reflected in net income as gains or losses once securities classified as AFS are realized.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive income and its components are disclosed in the Statements of Net Income and Comprehensive Income. The Statements of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statements of Financial Position.

3.12 New Standards and Interpretations Not Yet Adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements.

Standards that may impact the Corporation include:

3.12.1 IFRS 9: Financial Instruments

This standard defines a new way to classify and measure financial assets and liabilities and will replace *IAS 39: Financial Instruments: Recognition and Measurement*. Under this standard financial assets will be classified into three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the contractual cash flow characteristics of the financial assets. On December 16, 2011 the International Accounting Standards Board (IASB) issued amendments to *IFRS 9: Financial Instruments* that defer the mandatory effective date from January 1, 2013 to January 1, 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date.

The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying *IFRS 9*. This relief was originally only available to companies that chose to apply *IFRS 9* prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of *IFRS 9* has on the classification and measurement of financial instruments.

Since the impact of the adoption depends on the financial instruments held by the Corporation on the date of adoption, the impact of any changes cannot be quantified.

3.12.2 IFRS 13: Fair Value Measurement

On May 12, 2011 the IASB issued *IFRS 13: Fair Value Measurement*. *IFRS 13* establishes a single framework for all fair value measurements when the fair value is required or permitted by IFRS. *IFRS 13* does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS.

The impact of any changes cannot be quantified at this time.

NOTE 4 IMPACT OF IFRS ADOPTION

The Corporation has adopted IFRS effective January 1, 2011. Prior to adoption of IFRS the Corporation prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). The Corporation's financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS. Accordingly, the Corporation has made an unreserved statement of compliance with IFRS beginning with its 2012 annual financial statements.

The accounting policies applied in these financial statements are based on IFRS issued and outstanding as of March 7, 2012, the date the Board approved the statements.

4.1 Elected Exemptions from Full Retrospective Application

In preparing these financial statements in accordance with *IFRS 1: First-time Adoption of International Reporting Standards* the Corporation has chosen not to apply any of the optional exemptions available.

4.2 Mandatory Exceptions to Retrospective Application

Hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by the Corporation under CGAAP are consistent with their application under IFRS.

NOTE 4 IMPACT OF IFRS ADOPTION (CONTINUED)

4.3 Reconciliation of Statement of Financial Position as Previously Reported Under CGAAP to IFRS

Period ended January 1, 2010

			IFRS Adjustments		
(thousands of dollars)	Explanatory Notes	Canadian GAAP[1]	Provision for Financial Assistance	Intangible Assets	IFRS
ASSETS					
Cash and cash equivalents		$ 23,106	$ –	$ –	$ 23,106
Investments		129,893	–	–	129,893
Accrued interest receivable		707	–	–	707
Assessments receivable		4,537	–	–	4,537
Prepaid expenses and other assets		53	–	–	53
Property and equipment	2	217	–	(60)	157
Intangible assets	2		– –	60	60
		$ 158,513	**$ –**	**$ –**	**$ 158,513**
LIABILITIES					
Accounts payable and accrued liabilities		$ 791	$ –	$ –	$ 791
Provision for financial assistance	1	1,800	(1,000)	–	800
Current tax liability		43	–	–	43
Deferred tax liability		572	–	–	572
Special contribution payable		17,625	–	–	17,625
Long-term unclaimed credit union balances		731	–	–	731
		21,562	**(1,000)**	**–**	**20,562**
Commitments and contingencies		–	–	–	–
EQUITY					
Deposit guarantee fund	1	134,760	1,000	–	135,760
Accumulated other comprehensive income		2,191	–	–	2,191
		136,951	**1,000**	**–**	**137,951**
TOTAL LIABILITIES AND EQUITY		**$ 158,513**	**$ –**	**$ –**	**$ 158,513**

[1] Per audited financial statements December 31, 2009

Financial Information

NOTE 4 IMPACT OF IFRS ADOPTION (CONTINUED)

4.4 Reconciliation of Statement of Financial Position as Previously Reported Under CGAAP to IFRS

Period ended December 31, 2010

			IFRS Adjustments		
(thousands of dollars)	Explanatory Notes	Canadian GAAP(1)	Provision for Financial Assistance	Intangible Assets	IFRS
ASSETS					
Cash and cash equivalents		$ 24,809	$ –	$ –	$ 24,809
Investments		140,985	–	–	140,985
Accrued interest receivable		890	–	–	890
Assessments receivable		4,724	–	–	4,724
Prepaid expenses and other assets		43	–	–	43
Property and equipment	2	242	–	(65)	177
Intangible assets	2	–	–	65	65
		$ 171,693	**$ –**	**$ –**	**$ 171,693**
LIABILITIES					
Accounts payable and accrued liabilities		$ 966	$ –	$ –	$ 966
Provision for financial assistance	1	2,200	(1,000)	–	1,200
Current tax liability		152	–	–	152
Deferred tax liability		919	–	–	919
Special contribution payable		18,153	–	–	18,153
Long-term unclaimed credit union balances		815	–	–	815
		23,205	**(1,000)**	**–**	**22,205**
Commitments and contingencies		–	–	–	–
EQUITY					
Deposit guarantee fund	1	145,022	1,000	–	146,022
Accumulated other comprehensive income		3,466	–	–	3,466
		148,488	**1,000**	**–**	**149,488**
TOTAL LIABILITIES AND EQUITY		**$ 171,693**	**$ –**	**$ –**	**$ 171,693**

(1) Per audited financial statements December 31, 2010

NOTE 4 IMPACT OF IFRS ADOPTION (CONTINUED)

4.5 Reconciliation of Net Income, Comprehensive Income and Equity as Previously Reported Under CGAAP to IFRS

4.5.1 Net Income and Comprehensive Income

(thousands of dollars)	Explanatory Notes	December 31 2010
Comprehensive income as reported under CGAAP		$ 10,262
IFRS adjustments increase (decrease)		
Provision for financial assistance	1	–
Net Income reported under IFRS		**10,262**
Other Comprehensive Income as reported under CGAAP		1,275
IFRS adjustments increase (decrease)		–
Other Comprehensive Income reported under IFRS		**1,275**
Total Comprehensive Income		**$ 11,537**

4.5.2 Equity

(thousands of dollars)	Explanatory Notes	AOCI	Deposit Guarantee Fund	Total Equity
Balance per financial statements as at December 31, 2009		$ 2,191	$ 134,760	$ 136,951
IFRS adjustment increase (decrease)				
Provision for finance assistance	1	–	(1,000)	(1,000)
Balance as at January 1, 2010		**2,191**	**135,760**	**137,951**
Net income for the year		–	10,262	10,262
Unrealized gains on AFS financial instruments		1,275	–	1,275
Balance as at December 31, 2010		**$ 3,466**	**$ 146,022**	**$ 149,488**

Explanatory Notes:

1. *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* states provisions can be recognized as liabilities when they represent obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. As a result of this requirement, the Corporation cannot justify a general provision as a buffer against aggregate risk in the system and, accordingly, the provision has been adjusted to reflect only those amounts for which there is a:
   - present obligation (legal or constructive) as a result of a past event
   - high probability that funds will be required to settle the obligation
   - reliable estimate of the amount of the obligation.

   These items are adjusted based on historical loss experience and management's assessment of the potential for loss.
   The impact to the Corporation is a reduction in the general accrual of $1.0 million. Deposit Guarantee Fund earnings as of January 1, 2010 were adjusted to reflect this change.
   Cash flows from conversion to IFRS were not affected.
2. *IAS 1: Presentation of Financial Statements* states that, as a minimum, the face of the Statements of Financial Position shall include line items that present the following amounts:
   - property, plant and equipment
   - intangible assets

   As a result of this requirement, intangible assets for the Corporation representing the software purchases have been reclassified to a separate reporting line.

Financial Information

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, and in current accounts with Credit Union Central of Alberta and the Consolidated Cash Investment Trust Fund (CCITF). Cash at the end of the reporting period as shown in the Statements of Cash Flows can be reconciled to the related items in the Statements of Financial Position.

NOTE 6 INVESTMENTS

The Corporation has classified all investments, including units in the Bond Pool, as available-for-sale. These investments are measured on the Statements of Financial Position at fair value.

6.1 Fair Value

The fair value of the Corporation's financial instruments is summarized below:

	December 31, 2011		December 31, 2010		January 1, 2010	
(thousands of dollars)	Fair Value[1]	Cost	Fair Value[1]	Cost	Fair Value[1]	Cost
Directly held:						
Securities issued or guaranteed by:						
Canada	$ 40,689	$ 38,770	$ 35,361	$ 34,580	$ 30,460	$ 30,077
Provinces	29,602	26,665	32,157	30,388	39,372	37,905
Financial institutions	48,895	47,258	31,882	30,935	15,559	14,565
Asset backed securities and other[2]	14,158	13,562	13,589	13,110	18,933	18,846
Bond Pool	30,321	28,032	27,996	27,584	25,569	25,726
Total	**$ 163,665**	**$ 154,287**	**$ 140,985**	**$ 136,597**	**$ 129,893**	**$ 127,119**

[1] Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Investment in bonds and units in the Bond Pool are valued at year end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields.

[2] Other securities total $115,000 and 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.

6.2 Fair Value Hierarchy

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

Level One:	The fair value is based on quoted prices in active markets.
Level Two:	The fair value is based on inputs other than quote prices that are observable market data. Generally included in this category would be Government of Canada bonds, provincial government bonds, municipal bonds and chartered bank deposit notes.
Level Three:	The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	Level 1	Level 2	Level 3	Total
Investment:				
Fixed income securities, directly held	$ 20,885	$ 112,344	$ 115	$ 133,344
Bond Pool	–	30,321	–	30,321
Dec. 31, 2011 – Total	**20,885**	**142,665**	**115**	**163,665**
Percent	13%	87%	0%	100%
Dec. 31, 2010 – Total	**15,520**	**125,350**	**115**	**140,985**
Percent	11%	89%	0%	100%
Increase/(decrease) during the year	**5,365**	**17,315**	**–**	**22,680**
Jan. 1, 2010 – Total	**$ 18,678**	**$ 111,100**	**$ 115**	**$ 129,893**
Percent	14%	86%	0%	100%

NOTE 6 INVESTMENTS (CONTINUED)

6.3 Other Investments

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Credit Union Central Alberta, shares at cost	$ 100	$ 100	$ 100
Concentra Financial Services shares, at cost	15	15	15
	$ 115	**$ 115**	**$ 115**

These shares are not readily marketable, and there are no contractual or guaranteed rates of return on these investments. The yields earned on these shares have approximated rates earned by the Corporation on other investments, and in the Corporation's opinion, fair value of the shares will not differ significantly from the above stated net book values. The credit risk inherent in the shares is considered to be insignificant. There is no intention to dispose of these shares in the foreseeable future.

6.4 Investment Income

Investment income is as follows:

(thousands of dollars)	December 31 2011	December 31 2010
Investment Income		
Interest, dividend and derivative income	$ 6,471	$ 5,601
Gain on sale of investments	1,583	1,616
Loss on sale of investments	(717)	(3)
Writedowns on investments	–	–
	$ 7,337	**$ 7,214**

6.5 Investment Risk Management

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo, an experienced independent fund manager to manage the portfolio. The Corporation's management is responsible for monitoring performance, recommending changes to the Corporate Investment Policy and fund manager. The Board of Directors is responsible for governance and strategic direction of the investment portfolio through its annual review and approval of the Corporate Investment Policy.

The Corporation's segregated investment portfolio is managed with the objective of providing investment returns greater than the average yield of 50% DEX Short Term (2 year average) and 50% DEX Mid Term (5 year average) *All Government Indices* on the balance of the segregated portfolio. The objective is subject to the constraint that the net cumulative accounting losses on trades must not exceed $400,000 in any calendar year. This portfolio is comprised of high quality Canadian fixed income and debt related instruments.

The bond pool is managed with the objective of earning a return greater than the DEX Universe Bond Index over a four year average. The excess return is achieved through management of the portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives.

Included in the Bond Pool are certain derivative contracts. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts held indirectly through pooled funds are used to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes.

NOTE 6 INVESTMENTS (CONTINUED)

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to meet its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to 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.

6.6 Capital Risk

The Corporation is not subject to externally imposed regulatory capital requirements. The capital of the corporation consists of equity in the Deposit Guarantee Fund. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's capital target is for the Deposit Guarantee Fund to reach 1.5% of total credit union deposits and borrowings. This target is to be achieved by December 31, 2017. The Corporation manages capital through the following: quarterly reporting to the Board of Directors through its committees on financial results and capital, setting budgets and reporting variances to those budgets, establishing the Corporate Investment Policy, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

6.7 Credit Risk

Credit risk related to securities arises from the possibility that the counter-party to an instrument fails to discharge its contractual obligation to the Corporation or the possibility of a decline in the value of a debt security following a rating downgrade.

To mitigate credit risk, the Corporation has established specific rules to ensure the credit ratings of counter-parties 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 recognized credit rating agencies (Standard & Poors ("S&P"), Dominion Bond Rating Service ("DBRS") or Moody's). DBRS is used to rate most fixed income investments, followed by S&P. The Bond Pool limits its credit exposure by dealing with counter-parties having a credit standing A plus or greater.

The table below shows the credit risk exposure, by issuer, at the end of the reporting period.

(thousands of dollars)	Fair Value	Book Value	% of Total
Government			
Federal	$ 20,886	$ 20,042	12.8%
Canada Trust Housing	19,803	18,728	12.1%
New Brunswick	4,516	3,952	2.8%
Manitoba	5,541	4,890	3.4%
Ontario	9,076	8,520	5.5%
Quebec	10,470	9,303	6.4%
Corporate			
Bank of Montreal	12,893	12,468	7.9%
Bank of Nova Scotia	7,294	7,110	4.5%
CIBC	5,995	5,720	3.7%
Royal Bank	12,495	11,799	7.6%
Toronto Dominion	10,217	10,161	6.2%
Broadway Credit Card	9,126	8,724	5.6%
CHIP Mortgage Trust	1,257	1,223	0.8%
Master Card	3,660	3,500	2.2%
CDPA Bond Pool	30,321	28,032	18.5%
	$ 163,550	**$ 154,172**	**100.0%**

Excludes CUCA ($100,000) and Concentra Financial shares ($15,000) as there is no credit risk associated with these equities.

NOTE 6 INVESTMENTS (CONTINUED)

6.8 Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. Management expects that the Corporation's principal sources of funds will be cash generated from credit union deposit guarantee assessments and interest earned on its investments to meet its financial obligation to guarantee deposits at the credit unions. The Corporation's Investment Policy provides for a minimum of $3 million (2010: 15%) of investments to be held in cash or financial instruments maturing within one year. All the Corporation's investments are classified as available-for-sale and can readily be sold should the need arise.

6.9 Market Risk

Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices. Investments are carried on the Statements of Financial Position at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) to the value of investments are recorded as other comprehensive income, net of any other than temporary impairments which are recognized immediately in net income.

The Corporation is exposed to interest rate fluctuation as a result of normal market risk. This can affect cash flows, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. The Corporation's portfolio is positioned defensively on interest rates with shorter duration relative to its benchmark with a view that the current low yield environment is not sustainable, especially in Canada. The expectation is that the Bank of Canada may raise rates sooner than the market expects and the Corporation will be in a favorable position to take advantage of the increases.

A one percent increase or decrease is used when reporting interest rates to represent management's assessment of a possible reasonable change in interest rates. Any changes would impact cash flow, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. An increase or decrease of one percent would result in a decrease or increase of $7,523,000 (2010: $6,616,000) in the fair value of total investments.

As at December 31, 2011, securities directly held (excluding the Universe Fixed Income Pool) have an average effective yield of 2.0% based on fair value (2010: 2.9%). These securities have the following term structure under one year 0% (December 31, 2010: 3%; January 1, 2010: 6%), over one year and under five years: 58% (December 31, 2010: 56%; January 1, 2010: 48%), over five years and under ten years: 42% (December 31, 2010: 41%; January 1, 2010: 46%).

The Corporation owns units in the Universe Fixed Income Pool representing approximately 0.5% of the Pool's outstanding units. The Pool is comprised of Canadian fixed-income instruments and debt related derivatives. As at December 31, 2011, securities held by the Pool have an average effective market yield of 4.0% per annum (2010: 4.4% per annum) and the following term structure based on principal amount under one year: 3% (December 31, 2010: 10%; January 1, 2010: 4%); one to five years: 39% (December 31, 2010: 30%; January 1, 2010: 34%); five to ten years: 23% (December 31, 2010: 30%; January 1, 2010: 32%); ten to twenty years: 17% (December 31, 2010: 15%; January 1, 2010: 15%); and over twenty years: 18% (December 31, 2010: 15%; January 1, 2010: 15%). The Pool includes derivative contracts with a total notional amount of $29,262,000 (2010: $18,748,000) and a net positive fair value of $55,000 (2010: $72,000). The investment in units of the Bond Pool can be liquidated with one week's notice.

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NOTE 7 ASSESSMENTS RECEIVABLE

Assessments receivable are classified as 'Loans and Receivables' and are, therefore, measured at amortized cost.

Assessments receivable refer to the outstanding balance, owed by regulated credit unions, for the fourth quarter assessment charged by the Corporation. Assessments are based on credit union quarter ends with the December receivable being an accrual based on October results. Invoices are not issued until February of the following year. Variances between the accruals made and actual billed are minimal (Oct. 2011: -0.2% and Dec. 2010: -0.5%) The majority of invoices are paid within a week of processing as payment is done via electronic funds transfers.

NOTE 8 RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with an Alberta Crown Corporation and departments related to the Corporation by virtue of common control or influence by the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at prevailing market prices under normal trade terms and conditions no more or less favorable than with non-government parties dealing with arm's length are incidental and not disclosed.

The Board of Directors and the senior management and their close family members, are also deemed to be related parties. The Board Chair for the Corporation reports directly to the Minister of Finance. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board Members and its key senior management personnel that require disclosure in these financial statements (see Note 16 Directors' and Management Remuneration).

NOTE 9 CAPITAL ASSETS

9.1 Property and Equipment

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Cost	$ 1,376	$ 919	$ 859
Accumulated depreciation	(618)	(742)	(702)
Net Book Value	**758**	**177**	**157**
Furniture and Equipment	69	54	91
Computer equipment	107	69	43
Leasehold improvements	582	54	23
Net Book Value	**$ 758**	**$ 177**	**$ 157**

NOTE 9 CAPITAL ASSETS (CONTINUED)

9.1 Property and Equipment (CONTINUED)

(thousands of dollars)	Furniture & Equipment	Computer Hardware	Leasehold Improvements	Total
Cost				
Balance at January 1, 2011	$ 436	$ 213	$ 269	$ 918
Additions	53	90	616	759
Disposals	(76)	(5)	(220)	(301)
Balance at December 31, 2011	**413**	**298**	**665**	**1,376**
Accumulated Depreciation				
Balance at January 1, 2011	381	145	215	741
Disposals	(66)	(5)	(220)	(291)
Depreciation Expense	29	51	88	168
Balance at December 31, 2011	**344**	**191**	**83**	**618**
Net book Value	**$ 69**	**$ 107**	**$ 582**	**$ 758**

As at December 31, 2011, the cost of fully depreciated capital assets that are still in use are as below:

(thousands of dollars)	
Furniture and Equipment	$ 283
Computer equipment	104
Leasehold improvements	–
	$ 387

9.2 Intangible Assets

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Cost	$ 401	$ 315	$ 507
Accumulated amortization	(275)	(250)	(447)
	$ 126	**$ 65**	**$ 60**

Financial Information

NOTE 9 CAPITAL ASSETS (CONTINUED)

9.2 Intangible Assets (CONTINUED)

(thousands of dollars)	Intangible Assets
Cost	
Balance at January 1, 2011	$ 315
Additions	86
Disposals	–
Balance at December 31, 2011	**401**
Accumulated Amortization	
Balance at January 1, 2011	250
Disposals	–
Amortization expense	25
Balance at December 31, 2011	**275**
Net Book Value	**$ 126**

As at December 31, 2011 the cost of fully amortized intangible assets still in use is $265,000.

NOTE 10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are classified as 'financial liabilities' and therefore measured at amortized cost.

Accounts payable refers to trade payables. Trade payables are outstanding invoices to vendors, payable upon receipt. Accrued liabilities refer to obligations to employees or vendors where no invoice has been received.

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Accounts payable	$ 130	$ 52	$ 36
Accrued liabilities	937	909	723
Accrued lease inducements	465	5	32
	$ 1,532	**$ 966**	**$ 791**

NOTE 11 PROVISION FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1 Nature of Organization and in Note 3.6 Provision for Financial Assistance, the Corporation assists Alberta credit unions experiencing financial difficulties when, and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 1 Nature of Organization.

The provision for financial assistance is based on potential payments that are established to include the probability and estimated amount of financial assistance payments for an individual credit union or, if deemed necessary by management, an assessment of the aggregate risk for the system.

NOTE 11 PROVISION FOR FINANCIAL ASSISTANCE (CONTINUED)

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be documented in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the aggregate risk in the credit union system.

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the above standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis includes a review of all credit unions based on key financial and risk information:

- Aggregate score and individual components of capital, asset quality, management, earnings and liquidity; and composite risk ratings.
- The credit union's financial strength, including capital strength to absorb potential losses and earning trends
- Whether the credit union appears to have appropriately valued assets;
- Loans in the Borrower Risk Rating ("BRR") that fall into categories 6 (Watch List), 7 (Unacceptable Risk – Non Performing), 8 (Impaired Risk Performing), and 9 (Impaired Risk Non Performing);
- Review of impaired loans by category and Loan Transaction Review ("LTR") results;
- Whether allowances for impairment appear reasonable compared to total impaired loans and loans in the BRR 8 and 9 categories; and
- Provisions and contingencies related to amalgamations or arrangements and any indemnity agreements

Statement of Financial Position

(thousands of dollars)	Balance
Provision for financial assistance – January 1, 2010	**$ 800**
Change in provision for financial assistance	400
Provision for financial assistance – December 31, 2010	**1,200**
Change in provision for financial assistance	(231)
Provision for financial assistance – December 31, 2011	**$ 969**

The financial assistance required under this provision will be utilized by the end of 2013.

Statement of Net Income and Comprehensive Income

(thousands of dollars)	December 31 2011	December 31 2010
Provision for (recovery of) financial assistance		
Change in financial assistance provision	$ 231	$ 400
Financial assistance payments	(315)	(25)
Loan loss recoveries	–	(11)
Provision for (recovery of) financial assistance	**$ 84**	**$ 364**

NOTE 12 SPECIAL CONTRIBUTION PAYABLE

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement. The final payment, equal to 0.11% of Alberta credit union deposits including accrued interest and borrowings as at October 31 was paid in January, 2011. No further payments are required under this agreement.

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Special contribution payable	**$ –**	**$ 18,153**	**$ 17,625**

NOTE 13 COMMITMENTS AND CONTINGENCIES

13.1 Lease Commitments

The Corporation is a lessee for an operating lease related to a five-year agreement for office space commencing September, 2011 with an option to renew for an additional five years.

The following represents the minimum payments over the next five years.

Not later than one year	$ 474
Later than one year and not later than 5 years	$ 1,739
Later than 5 years	$ –

13.2 Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation and that no provision is required.

NOTE 14 INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes deposit guarantee assessments and financial assistance recoveries and no deduction may be made for financial assistance or special contributions paid.

The Corporation's statutory income tax rate is 21% (2010: 21%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before taxes for the following reasons:

Statement of Net Income and Comprehensive Income

(thousands of dollars)	December 31 2011	December 31 2010
Expected income tax expense on pre-tax net income at the statutory rate	$ 5,513	$ 2,199
Add (deduct) tax effect of:		
Non-taxable assessments	(5,394)	(5,878)
Non-deductible special contribution	–	3,812
Non-taxable provision for financial assistance	18	76
Other	(16)	(1)
Current Tax	**121**	**208**
2010 Adjustment	(11)	
Total Income Tax Expense	**$ 110**	**$ 208**

NOTE 14 INCOME TAXES (CONTINUED)

At December 31, 2011 the non depreciated property and equipment value for income tax purposes are lower than the related book values by approximately $25,000 (2010 was higher than book value by $11,000). The resulting future income taxes recoverable are reflected in the Statements of Financial Position. The Corporation's future effective income tax rate is 21% (2010: 21%).

NOTE 15 REVENUE

The Corporation charges quarterly deposit guarantee assessments to regulated credit unions to carry out its legislated mandate. In 2011, the Corporation earned $25,687,000 (2010: $27,990,000) from deposit guarantee assessments charged to credit unions. Assessments received by the Corporation from the largest credit union represent 59.4% of the total assessments received.

NOTE 16 DIRECTORS' AND MANAGEMENT REMUNERATION

	December 31, 2011			
(thousands of dollars)	Directors' Fees or Salary [1]	Other Cash Benefits [2]	Other Non Cash Benefits [3]	Total
Chair [4,5]	$ 32	$ –	$ –	$ 32
Board Members [4,5]	132	–	–	132
Current senior management:				
President & CEO [6]	264	98	34	396
Vice President, Finance, Governance & HR	187	50	28	265
Executive Vice President, Regulation & Risk Assessment	192	51	23	266
Vice President, Strategy, Analysis & IT	166	46	21	233
Total Remuneration	**$ 973**	**$ 245**	**$ 106**	**$ 1,324**

	December 31, 2010			
(thousands of dollars)	Directors' Fees or Salary [1]	Other Cash Benefits [2]	Other Non Cash Benefits [3]	Total
Chair [4,5]	$ 36	$ –	$ –	$ 36
Board Members [4,5]	112	–	–	112
Current senior management:				
President & CEO [6]	263	97	31	391
Vice President, Finance, Governance & HR	186	48	25	259
Executive Vice President, Regulation & Risk Assessment	190	49	20	259
Vice President, Strategy, Analysis & IT	166	44	18	228
Total Remuneration	**$ 953**	**$ 238**	**$ 94**	**$ 1,285**

[1] Salary includes regular pay base pay.

[2] Other cash benefits include bonus, perquisite amounts, computer grant and Employment Insurance refund.

[3] Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.

[4] The Chair receives a $10,000 annual retainer. The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance of the Province is a Board Member but receives no remuneration from the Corporation.

[5] The minimum and maximum amounts paid to directors were $16,000 (2010: $1,000) and $32,000 (2010: $37,000) respectively. The average amount paid to directors was $20,000 (2010: $19,000).

[6] Under the terms of an employment contract ending in 2013, the President & CEO will be entitled to receive a retirement allowance equal to one year's annual base salary if he remains employed until the completion of his contract. To date, $132,000 has been accrued for this retirement allowance.

NOTE 17 RETIREMENT BENEFIT PLANS

The Corporation maintains a defined contribution plan for its employees where the cost is charged to net income or expenses when recognized. The Corporation contributes 6% of the employees' gross salary including any paid vacation pay to each employee's RRSP on a matching basis, and participation is compulsory for all employees. The RRSP deductions are remitted monthly to the administrator of the group plan.

The total expense recognized in the statement of net income and comprehensive income of $217,000 (2010: $227,000) represents contributions payable to these plans by the Corporation. As at December 31, 2011, no contributions (2010: $3,000) were due in respect of the 2011 reporting period.

The Corporation does not have any defined benefit plans nor are there any post retirement benefits.

NOTE 18 2011 BUDGET

The 2011 budget was approved by the Board of Directors on September 21, 2010.

NOTE 19 ADMINISTRATION EXPENSES

	2011		2010
(thousands of dollars)	Budget	Actual	Actual
Salaries and benefits	$ 5,186	$ 4,933	$ 4,906
Lease payments	383	364	258
Office	338	325	202
Professional fees	330	314	285
Amortization	245	193	98
Staff travel	176	178	141
Board and committee fees	190	164	148
Other	197	147	118
Board and committee expenses	82	71	61
	$ 7,127	**$ 6,689**	**$ 6,217**

Other Information

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Supplementary Information

Required by Legislation or by Direction of the Minister of Finance

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Statement of Remissions, Compromises and Write-offs

(Unaudited)
For the year ended March 31, 2012

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all remissions, compromises and write-offs of the Ministry of Finance made or approved during the fiscal year.

Remissions	
Personal Income Tax	$ 135,000
Compromises	
Corporate Income Tax	$ -
Write-offs	
Department of Finance and Enterprise	
Accounts Receivable	
Corporate Income Tax	$ 2,283,134
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	4,690
ATB Financial	
Loans and accounts receivable	33,846,669
	36,134,493
Total Remissions, compromises & write-offs	$ 36,269,493

Statement of Borrowings Made Under Section 56(1) of the *Financial Administration Act*

(Unaudited)
For the year ended March 31, 2012

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue	
	Principal	**Proceeds**
Payable in Canadian dollars:		
Promissory Notes	$ 14,805,000,000	$ 14,789,024,091
Debentures	3,710,721,000	3,707,750,100
	$ 18,515,721,000	$ 18,496,774,191

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)
For the year ended March 31, 2012

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 2011-12 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act* was $ nil.

Statements of Guarantees and Indeminities

(Unaudited)
For the year ended March 31, 2012

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act*.

The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Finance and Enterprise on behalf of the Crown and Provincial Corporations for the year ended March 31, 2011, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recovered in debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Payments	Recoveries
CROWN GUARANTEES		
Gainers Inc. and subsidiaries	$ 4,690	$ -

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance, and the Local Authorities Pension Plan Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Local Authorities Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Local Authorities Pension Plan as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 25, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands) 2011	2010
Net assets available for benefits		
Assets		
Investments (Note 3)	$19,615,151	$17,648,692
Contributions receivable		
Employers	30,810	23,106
Employees	28,098	21,085
Receivable for investment sales	3,426	-
Accrued investment income and accounts receivable	7,584	-
Total Assets	19,685,069	17,692,883
Liabilities		
Accounts payable	21,120	6,033
Liabilities for investment purchases	1,139	-
Total Liabilities	22,259	6,033
Net assets available for benefits	$ 19,662,810	$ 17,686,850
Pension obligation and deficit		
Pension obligation (Note 5)	$24,302,200	$22,322,100
Deficit (Note 6)	(4,639,390)	(4,635,250)
Pension obligation and deficit	$19,662,810	$17,686,850

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

	($ thousands) 2011	2010
Increase in assets		
Contributions (Note 7)	$ 1,656,977	$ 1,503,231
Investment income (Note 8)	1,265,150	1,663,817
	2,922,127	3,167,048
Decrease in assets		
Benefit payments (Note 10)	839,374	742,716
Transfers to other plans	6,824	10,647
Investment expenses (Note 11)	70,286	64,105
Administrative expenses (Note 12)	29,683	30,216
	946,167	847,684
Increase in net assets	1,975,960	2,319,364
Net assets available for benefits at beginning of year	17,686,850	15,367,486
Net assets available for benefits at end of year	$ 19,662,810	$ 17,686,850

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31

	($ thousands) 2011	2010
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 1,424,100	$ 1,318,000
Benefits earned	1,222,100	959,200
Net increase due to actuarial assumption changes (Note 5a)	-	1,526,700
Net experience losses (gains) (Note 5b)	190,700	(82,500)
	2,836,900	3,721,400
Decrease in pension obligation		
Benefits , transfers and interest	856,800	765,400
	856,800	765,400
Net increase in pension obligation	1,980,100	2,956,000
Pension obligation at beginning of year	22,322,100	19,366,100
Pension obligation at end of year (Note 5)	$ 24,302,200	$ 22,322,100

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Local Authorities Pension Plan* Alberta Regulation 366/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556. The Minister of Alberta Finance is the legal trustee of the Plan and Alberta Finance is management of the Plan. The Local Authorities Pension Plan Board of Trustees (the Board) has certain statutory functions with respect to the Plan, including but not limited to setting contribution rates, conducting actuarial valuations and making recommendations for Plan rule amendments. The Alberta Local Authorities Pension Plan Corp. (LAPP Corp.) supports the Board's functions and provides high level strategic guidance to the Plan.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employers and employees at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2011 were 8.49% (2010: 8.06%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 12.13 % (2010: 11.53%) of the excess for employees, and 9.49 % (2010: 9.06 %) of pensionable earnings up to the YMPE and 13.13 % (2010: 12.53%) of the excess for employers.

The contribution rates were reviewed by the Board in 2011 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have increased at January 1, 2012 as follows: 8.91% of pensionable salary up to the YMPE and 12.74% of the excess for employees, and 9.91% of pensionable salary up to the YMPE and 13.74% of the excess for employers.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum pensionable service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of pensionable service equals at least 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of pensionable service.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least two years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may receive the commuted value for all years of membership, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest. These payments are included as Refunds to members on the Statements of Changes in Net Assets Available for Benefits.

g) OPTIONAL SERVICE AND RECIPROCAL TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligations. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3l) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 7) and benefit payments (Note 10).

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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF INVESTMENTS

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

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

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

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.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

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. Administrative expenses are recorded on an accrual basis.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) 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 3l) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. 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 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.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at the beginning of the year and results from the most recent valuation are extrapolated to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

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 pension obligation, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, 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 pension obligation, 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 pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

	($ thousands)			
	2011		2010	
	Fair Value	%	Fair Value	%
Fixed income				
Deposits and short-term securities [(a)]	$ 234,024	1.2	$ 273,784	1.6
Bonds and mortgages [(b)]	5,965,574	30.4	5,242,176	29.7
	6,199,598	31.6	5,515,960	31.3
Inflation sensitive and alternative investments				
Real estate [(c)]	2,662,495	13.6	2,165,056	12.3
Real return bonds [(d)]	1,014,003	5.2	1,054,727	6.0
Infrastructure [(e)]	1,073,065	5.5	617,851	3.5
Timberland [(f)]	234,299	1.2	86,741	0.5
	4,983,862	25.5	3,924,375	22.3
Short horizon				
Canadian public equities [(g)]	2,461,171	12.5	2,232,468	12.6
Foreign public equities [(h)]	5,009,746	25.5	4,362,444	24.7
Absolute return strategy hedge funds [(i)]	-	-	656,952	3.7
	7,470,917	38.0	7,251,864	41.0
Long horizon				
Private equities [(j)]	960,774	4.9	956,493	5.4
Total investments [(k) (l)]	**$ 19,615,151**	**100.0**	**$ 17,648,692**	**100.0**

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $234,024 (2010: $263,189) and short-term securities of $nil (2010: $ 10,595). Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

b) The bond and mortgage portfolio includes policy allocations to universe bonds totalling $1,113,531 (2010: $874,476), long government bonds totalling $4,037,705 (2010: $3,562,833) and mortgages totalling $814,338 (2010: $804,867). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

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

d) The inflation sensitive real return bond portfolio is primarily made up of bonds that are issued by the Government of Canada, and bear interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

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

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

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

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

i) Effective October 2011, hedge fund assets were transferred to the global developed portfolio (see Note 3h).

j) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions. The private equity asset class includes the fair value of forward foreign exchange contracts used to hedge foreign currency exposure.

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

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

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	**Level one**	**Level two**	**Level three***	**Total**
Fixed income	$ -	$ 5,385,260	$ 814,338	$ 6,199,598
Inflation sensitive and alternative investments	-	1,014,003	3,969,859	4,983,862
Short horizon	4,625,359	1,962,038	883,520	7,470,917
Long horizon	-	-	960,774	960,774
2011 - Total Amount	**$ 4,625,359**	**$ 8,361,301**	**$ 6,628,491**	**$ 19,615,151**
- Percent	**23%**	**43%**	**34%**	**100%**
2010 - Total Amount	$ 4,303,998	$ 7,713,648	$ 5,631,046	$ 17,648,692
- Percent	25%	43%	32%	100%
Increase during the year	**$ 321,361**	**$ 647,653**	**$ 997,445**	**$ 1,966,459**

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)
	2011
Balance, beginning of year	$ 5,631,046
Investment income	713,743
Purchases of Level 3 pooled fund units	4,142,458
Sale of Level 3 pooled fund units	(3,858,756)
Balance, end of year	**$ 6,628,491**

l) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash

NOTE 3 INVESTMENTS CONTINUED

collateral and deposits in futures contracts margin accounts, totalled $164,366 or 0.8% of total investments (2010: $210,879 or 1.2% of total investments).

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

($ thousands)

	2011					2010	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
	%						
Equity replication derivatives [(c)]	92	8	-	$ 8,368,821	$ 75,425	$ 5,924,270	$ 99,585
Interest rate derivatives [(d)]	49	19	32	1,467,523	(3,955)	1,197,429	(10,156)
Foreign currency derivatives [(e)]	99	1	-	4,799,302	(7,304)	2,821,943	26,059
Credit risk derivatives [(f)]	16	19	65	526,626	(8,913)	489,753	(5,261)
Derivative related receivables, net					55,253		110,227
Deposits in futures margin accounts					109,071		100,652
Deposits as collateral for derivative contracts					42		-
Net derivative related investments					$164,366		$210,879

Net derivative related receivables of $55,253 are comprised of net receivables from counterparties of $160,966 and net payables to counterparties of $105,713. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants, and options.

(d) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

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

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

At December 31, 2011, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $12,781 (2010: $3,089).

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3l).

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

Fixed Income	20-50%
Inflation Sensitive/Alternatives	20-50%
Short Horizon	25-50%
Long Horizon	5-10%

a) CREDIT RISK

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

The Plan is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2011:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	91%
Speculative Grade (BB+ or lower)	0%
Unrated	9%
	100%

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3l). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Plan is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 27% of the Plan's investments, totalling $5,309 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (14%) and the euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately $531 million (2010: $626 million). The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2011:

	($ millions)	
	2011	
Currency	Fair Value	Sensitivity
U.S. dollar	$ 2,799	$ (280)
Euro	690	(69)
Japanese yen	432	(43)
British pound	401	(40)
Australian dollar	274	(28)
Swiss franc	133	(13)
Other foreign currencies	580	(58)
Total foreign currency investments	$ 5,309	$ (531)

c) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately $712 million (2010: $697 million).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	1%	17%	82%	3.8%
Real return bonds	7%	2%	91%	0.5%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Plan's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables held constant, the potential loss to the Plan would be approximately $673 million (2010: $663 million). Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

e) LIQUIDITY RISK

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3l).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2010 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the pension obligation of $24,302,200 (2010: $22,322,100) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2011	2010
	%	
Discount rate	6.00	6.00
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2011 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 2012.

b) NET EXPERIENCE GAINS

Experience losses of $190,700 (2010: gains of $82,500) arose from differences between the actuarial assumptions used in the 2010 valuation and 2011 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings (1)
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	1,600,500	0.9
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	1,013,000	1.2
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	3,841,500	3.0

(1) The current service cost as a percentage of pensionable earnings as determined by the December 31, 2011 extrapolation was 14.87%.

NOTE 6 DEFICIT

	($ thousands) 2011	2010
Deficit at beginning of year	$ (4,635,250)	$ (3,998,614)
Increase in net assets available for benefits	1,975,960	2,319,364
Net increase in pension obligation	1,980,100	2,956,000
Deficit at end of year	$ (4,639,390)	$ (4,635,250)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2011	2010
Current and optional service		
Employers	$ 849,936	$ 771,359
Employees	769,877	695,837
Transfers from other plans	14,473	12,000
Past service		
Employers	7,014	6,407
Employees	15,677	17,628
	$ 1,656,977	$ 1,503,231

NOTE 8 INVESTMENT INCOME

Investment Income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The following is a summary of the Plan's investment income by asset class.

	($ thousands) 2011	2010
Interest-bearing securities	$ 781,808	$ 538,433
Absolute return strategies	29,818	81,129
Canadian equities	(165,771)	337,955
Foreign equities	(160,072)	233,055
Private equities	74,411	73,437
Real estate	466,063	236,192
Real return bonds	172,545	104,524
Infrastructure	23,911	57,708
Timberland	42,437	1,384
	$ 1,265,150	$ 1,663,817

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2011	2010 (restated) [d]	Four-Year Compound Annualized Return	Ten-Year Compound Annualized Return	Eighteen-Year Compound Annualized Return
Time weighted rates of return [a]			*in percent*		
Actual gain	**6.5**	**9.9**	**2.2**	**6.4**	**7.1**
Policy benchmark gain [b]	5.2	11.5	3.8	6.7	7.3
Value added (lost) by investment manager	1.3	(1.6)	(1.6)	(0.3)	(0.2)
Expected value added [c]	1.0	1.0	1.0	1.0	1.0

(a) Investment returns are provided by AIMCo. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In the SIP&G, the investment manager is expected to deliver a return of 100 basis points, or 1%, net of fees, above the policy benchmark return on a continuous rolling four-year time horizon.

(d) The benchmark return reported for 2010 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2010 financial statements. As a result, the benchmark return changed from 11.6% to 11.5%.

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2011	2010
Retirement benefits	$ 614,092	$ 561,349
Disability benefits	9,653	9,708
Termination benefits	173,347	134,519
Death benefits	42,282	37,140
	$ 839,374	$ 742,716

NOTE 11 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses are provided below:

	2011 ($ thousands)	2010 ($ thousands)
Interest-bearing securities	$ 7,711	$ 6,047
Absolute return strategies	5,553	6,054
Canadian equities	3,397	2,801
Foreign equities	16,204	14,337
Private equities	17,403	17,772
Real estate	11,273	8,758
Real return bonds	1,201	729
Infrastructure	6,095	6,875
Timberland	1,449	732
Total investment expenses	$ 70,286	$ 64,105
Average fair value of investments	$18,631,922	$16,571,537
Percent of investments at average fair value	0.38%	0.39%
Investment expenses per member	$ 328	$ 316

NOTE 12 ADMINISTRATIVE EXPENSES

	2011 ($ thousands)	2010 ($ thousands)
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 27,426	$ 27,861
Alberta Local Authorities Pension Plan Corporation (LAPP Corp.)	1,980	1,930
Actuarial fees	222	372
Audit fees	55	53
	29,683	30,216
Member service expenses per member	$ 138	$ 149

General administration costs and process improvement costs, including the Board costs were paid to APS and LAPP Corp. on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on cost allocation policies approved by the Minister of Alberta Finance.

NOTE 12 ADMINISTRATIVE EXPENSES CONTINUED

LAPP Corp. costs include remuneration to senior officials and the Board members as follows:

($ thousands)

	2011				2010
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair (d)	$ -	$ 16	$ -	$ 16	$ 18
Corporation Board Members (excluding Chair) (d)	-	140	-	140	160
President & Chief	196	47	50	293	
Executive Officer					285
Vice-Presidents:					
Investments (e)	101	35	6	142	84
Policy and Research (f)	127	6	28	161	97
Stakeholder Relations (g)	124	22	30	176	113

(a) Base salary includes regular base pay.

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

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

(d) Remuneration paid for the services of the Chair and 13 board members is classified under the Board meeting fees and is paid in accordance with the fee structure approved by the Minister of Alberta Finance.

(e) This is a 0.6 FTE position, position was vacant five months, in 2010.

(f) Position was vacant five months in 2010.

(g) Position was vacant three months in 2010.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $99,969 (2010: $94,321) or $466 (2010: $465) per member and 0.51% (2010: 0.53%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's 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 $20,880,100 at December 31, 2011 (2010: $17,935,300).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 6.96% of pensionable earnings shared equally between employers and employees until December 31, 2025. The special payments have been included in the rates in effect at December 31, 2011 (see Note 1(b)).

NOTE 15 COMPARATIVE FIGURES

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

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance, based on information provided by APS, LAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

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MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 25, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands) 2011	2010
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 2,634,480	$ 2,563,649
Contributions receivable		
Employers	568	395
Employees	336	232
Accrued investment income and accounts receivable	2,419	161
Total Assets	2,637,803	2,564,437
Liabilities		
Accounts payable	1,947	244
Total Liabilities	1,947	244
Net assets available for benefits	$ 2,635,856	$ 2,564,193
Pension obligation and deficit		
Pension obligation (Note 5)	$ 3,153,582	$2,961,280
Deficit (Note 6)	(517,726)	(397,087)
Pension obligation and deficit	$ 2,635,856	$ 2,564,193

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

	($ thousands) 2011	2010
Increase in Assets		
Contributions (Note 7)	$ 155,835	$ 144,953
Investment income (Note 8)	65,849	244,018
Transfers from other plans, net	1,873	4,853
	223,557	393,824
Decrease in Assets		
Benefit payments (Note 10)	142,152	128,352
Investment expenses (Note 11)	8,150	7,224
Administrative expenses (Note 12)	1,592	1,770
	151,894	137,346
Increase in net assets	71,663	256,478
Net assets available for benefits at beginning of year	2,564,193	2,307,715
Net assets available for benefits at end of year	$ 2,635,856	$ 2,564,193

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31

	($ thousands) 2011	2010
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 188,531	$ 179,779
Benefits earned	106,976	102,230
Net increase due to actuarial assumption changes (Note 5a)	37,074	69,371
	332,581	351,380
Decrease in pension obligation		
Benefits, transfers and interest	140,279	123,499
Net experience gains (Note 5b)	-	57,515
	140,279	181,014
Net increase in pension obligation	192,302	170,366
Pension obligation at beginning of year	2,961,280	2,790,914
Pension obligation at end of year (Note 5)	$ 3,153,582	$ 2,961,280

Notes to the Financial Statements

Year ended December 31

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The Minister of Alberta Finance is the legal trustee for the Plan and Alberta Finance is management of the Plan. The Plan receives advice from the Management Employees Pension Plan Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employee and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2011 are 11.16% (2010: 10.5%) of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% (2010: 18.0%) for employers.

The contribution rates are reviewed at least once every three years by the Minister of Alberta Finance, in consultation with the Board, based on recommendations of the Plan's actuary. As a result of this review, the contribution rates were increased at January 1, 2011 to 11.16% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% for employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3k) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 7) and benefit payments (Note 10).

The Plan invests in units of 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF INVESTMENTS

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

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

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.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

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

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) 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 3k) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. 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 index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

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 pension obligation, private investments, absolute return strategies and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, 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 pension obligation, 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 pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

	($ thousands)			
	2011		2010	
	Fair Value	%	Fair Value	%
Interest-bearing securities				
Deposits and short-term securities [(a)]	$ 20,358	0.8	$ 21,085	0.8
Bonds and mortgages [(b)]	374,777	14.2	646,220	25.2
	395,135	15.0	667,305	26.0
Equities				
Canadian public [(c)]	355,922	13.5	367,442	14.3
Foreign public [(d)]	1,101,023	41.8	1,028,848	40.1
Private [(e)]	112,685	4.3	90,657	3.6
Absolute return strategy hedge funds [(f)]	-	-	12,659	0.5
	1,569,630	59.6	1,499,606	58.5
Inflation sensitive				
Real estate [(g)]	178,911	6.8	144,637	5.7
Infrastructure and private debt and loan [(h)]	152,634	5.8	56,754	2.2
Real return bonds [(i)]	338,170	12.8	195,347	7.6
	669,715	25.4	396,738	15.5
Total investments [(j) (k)]	$ 2,634,480	100.0	$ 2,563,649	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) totalling $20,358 (2010: $19,492) and short-term securities of $nil (2010: $1,593). Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

b) The bond and mortgage portfolio includes allocations to universe bonds totalling $270,478 (2010: $534,337) and mortgages totalling $104,299 (2010: $111,883). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

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

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity

NOTE 3 INVESTMENTS CONTINUED

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

e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions.

f) Effective October 2011, hedge fund assets were transferred to the global developed portfolio (see Note 3d).

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

h) The infrastructure portfolio includes investments in infrastructure partnerships totalling $125,765 (2010: $52,987) and investments in private debt and loans totalling $26,869 (2010: $3,767). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks). Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

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

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

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

Level Two*:* Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three*:* Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three*	Total
Interest-bearing securities	$ -	$ 290,836	$ 104,299	$ 395,135
Equities	1,003,965	362,948	202,717	1,569,630
Inflation sensitive	-	338,170	331,545	669,715
2011 - Total Amount	$ 1,003,965	$ 991,954	$ 638,561	$ 2,634,480
- Percent	38%	38%	24%	100%
2010 - Total Amount	$ 903,254	$ 1,178,305	$ 482,090	$ 2,563,649
- Percent	35%	46%	19%	100%
Increase (decrease) during the year	$ 100,711	$ (186,351)	$ 156,471	$ 70,831

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)	
	2011	**2010**
Balance, beginning of year	$ 482,090	$ 395,947
Investment income	53,017	46,157
Purchases of Level 3 pooled fund units	205,784	122,486
Sale of Level 3 pooled fund units	(102,330)	(82,500)
Balance, end of year	**$ 638,561**	**$ 482,090**

k) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash collateral and deposits in futures contracts margin accounts, totalled $28,751 or 1.1% of total investments (2010: $35,736 or 1.4% of total investments).

NOTE 3 INVESTMENTS CONTINUED

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

($ thousands)

	2011					2010	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
		%					
Equity replication derivatives [(c)]	94	6	-	$ 1,574,301	$ 14,860	$ 1,263,905	$ 23,006
Interest rate derivatives [(d)]	47	18	35	293,656	(929)	323,879	305
Foreign currency derivatives [(e)]	100	-	-	725,883	471	359,001	(630)
Credit risk derivatives [(f)]	17	21	62	117,847	(2,241)	320,387	(3,453)
Derivative related receivables, net					12,161		19,228
Deposits in futures margin accounts					16,581		16,508
Deposits as collateral for derivative contracts					9		-
Net derivative related investments					$ 28,751		$ 35,736

Net derivative related receivables of $12,161 are comprised of net receivables from counterparties of $32,931 and net payables to counterparties of $20,770. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants, and options.

(d) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

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

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

At December 31, 2011, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $(153) (2010: $452).

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3k).

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

Interest-bearing securities (money market and fixed income)	10-40%
Equities	40-70%
Inflation sensitive	15-40%

a) CREDIT RISK

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

The Plan is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2011:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	85%
Speculative Grade (BB+ or lower)	0%
Unrated	15%
	100%

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3k). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Plan is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 46% of the Plan's investments, or $1,201 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (24%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately $120 million (2010: $121 million). The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2011:

	($ millions)	
	2011	
Currency	**Fair Value**	**Sensitivity**
U.S. dollar	$ 646	$ (65)
Euro	139	(14)
Japanese yen	94	(9)
British pound	94	(9)
Australian dollar	37	(4)
Swiss franc	28	(3)
Other foreign currencies	163	(16)
Total foreign currency investments	$ 1,201	$ (120)

c) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately $67 million (2010: $69 million).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	**< 1 year**	**1 - 5 years**	**Over 5 years**	**Average Effective Market Yield**
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	3%	46%	51%	3.7%
Real return bonds	7%	2%	91%	0.5%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Plan's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately $132 million (2010: $121 million). Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

e) LIQUIDITY RISK

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3k).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the pension obligation of $3,153,582 (2010: $2,961,280) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2011	2010
	%	
Discount rate	6.30	6.40
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2023 using Scale AA	

* In addition to age specific merit and promotion increase assumptions.

Other Information

NOTE 5 PENSION OBLIGATION CONTINUED

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2012. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2013.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2010 gains of $57,515) arose from differences between the actuarial assumptions used in the 2009 valuation and 2011 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions	**Increase in Plan Deficiency**	**Increase in Current Service Cost as a % of Pensionable Earnings ***
	%	**$**	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	222,200	1.5
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	15,400	0.4
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	406,400	4.0

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2009 valuation was 21.6%.

NOTE 6 DEFICIT

	($ thousands)	
	2011	**2010**
Deficit at beginning of year	$ (397,087)	$ (483,199)
Increase in net assets available for benefits	71,663	256,478
Net increase in pension obligation	192,302	170,366
Deficit at end of year	$ (517,726)	$ (397,087)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2011	2010
Current service		
Employers	$ 97,324	$ 90,011
Employees	56,811	52,534
Past service		
Employers	406	261
Employees	1,294	2,147
	$ 155,835	$ 144,953

NOTE 8 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

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

	($ thousands) 2011	2010
Interest-bearing securities	$ 41,999	$ 64,915
Absolute return strategies	575	1,359
Canadian equities	(27,269)	67,934
Foreign equities	(48,892)	70,493
Private equities	7,741	5,768
Real estate	31,208	15,798
Real return bonds	56,864	12,836
Infrastructure and private debt and loan	3,623	4,915
	$ 65,849	**$ 244,018**

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2011	2010 (restated) [d]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Eighteen-year Compound Annualized Return
Time-weighted rates of return [a]			*(in percent)*		
Actual gain (loss)	2.1	10.2	1.6	5.7	7.1
Policy Benchmark gain (loss) [b]	*1.5*	*10.7*	*2.5*	*5.9*	*7.0*
Value added (lost) by investment manager	0.6	(0.5)	(0.9)	(0.2)	0.1
Expected value added [c]	0.75	0.75	0.75	0.75	0.75

[a] Investment returns are provided by AIMCo. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

[b] The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) CONTINUED

(c) In the SIP&G, the Public Service Pension board expects that the investments held by the Plan will return approximately 75 basis points, or 0.75%, above the policy benchmark over 4-year rolling time periods.

(d) The actual and benchmark returns reported for 2010 have been restated to conform with changes made by AIMCo subsequent to the completion of the 2010 financial statements. As a result, the actual return in 2010 changed from 10.1% to 10.2% and the benchmark return changed from 10.5% to 10.7%.

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2011	2010
Retirement benefits	$ 128,944	$ 119,037
Disability benefits	350	348
Termination benefits	10,311	5,779
Death benefits	2,547	3,187
	$ 142,152	$ 128,351

NOTE 11 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses are provided below:

	($ thousands) 2011	2010
Interest-bearing securities	$ 810	$ 916
Absolute return strategies	107	94
Canadian equities	551	630
Foreign equities	3,426	2,849
Private equities	1,515	1,400
Real estate	768	594
Real return bonds	333	126
Infrastructure and private debt and loan	640	615
Total investment expenses	$ 8,150	$ 7,224
Average fair value of investments	$ 2,599,065	2,440,024
Percent of investments at average fair value	0.31%	0.30%
Investment expenses per member	$ 827	$ 779

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2011	2010
General administration costs	$ 1,357	$ 1,451
Board costs	58	54
Actuarial fees	13	43
Audit fees	42	40
Other professional fees	122	182
	1,592	1,770
Member service expenses per member	$ 162	$ 190

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $9,742 (2010: $9,000) or $989 (2010: $969) per member and 0.37% (2010: 0.35%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's 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 $2,720,737 at December 31, 2011 (2010: $2,645,259).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by the December 31, 2009 actuarial funding valuations are expected to be funded by special payments currently totalling 9.4% of pensionable earnings shared between employees and employers until December 31, 2014. Thereafter, the special payments will decrease successively to 7.3% until December 31, 2016; to 2.5% until December 31, 2017; and to 2.1% until December 31, 2024.

The special payments have been included in the rates in effect at December 31, 2011 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

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

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

Financial Statements

Year Ended March 31, 2012

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers (Registered) Pension Plan, which comprise the statements of financial position as at March 31, 2012 and 2011, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers (Registered) Pension Plan as at March 31, 2012 and 2011, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statements of Financial Position

As at March 31

	2012	2011
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 102,218	$ 99,244
Receivable from sale of investments	1,100	-
Contributions receivable		
Employer	45	-
Employee	93	-
GST receivable	29	14
Total assets	103,485	99,258
Liabilities		
Liabilities for investment purchases	622	-
Accounts payable	36	48
Total Liabilities	658	48
Net assets available for benefits	$ 102,827	$ 99,210
Pension obligation and (deficit) surplus		
Pension Obligation (Note 5)	103,599	94,047
(Deficit) Surplus (Note 6)	(772)	5,163
Pension obligation and (deficit) surplus	$ 102,827	$ 99,210

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended March 31

	($ thousands) 2012	2011
Increase in assets		
Contributions (Note 7)	$ 4,635	$ 5,416
Investment income (Note 8)	6,276	9,029
	10,911	14,445
Decrease in assets		
Benefit payments (Note 10)	6,805	6,454
Investment expenses (Note 11)	394	260
Administrative expenses (Note 12)	95	99
	7,294	6,813
Increase in net assets	3,617	7,632
Net assets available for benefits at beginning of year	99,210	91,578
Net assets available for benefits at end of year	$ 102,827	$ 99,210

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31

		($ thousands) 2012	2011
Increase in pension obligation			
Interest accrued on opening pension obligation	5	$ 5,748	$ 5,784
Benefits earned	3	3,587	3,428
Net increase due to actuarial assumption changes	3	3,890	846
Impact of Judicial Compensation Commission	3	3,225	-
		16,450	10,058
Decrease in pension obligation			
Benefits, transfers and interest	6	6,805	6,454
Net experience gains		93	2,855
		6,898	9,309
Net increase in pension obligation		9,552	749
Pension obligation at beginning of year		94,047	93,298
Pension obligation at end of year (Note 5)		$ 103,599	$ 94,047

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31

(all dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Plan is a summary only. For a complete description of the Provincial Judges and Masters in Chambers Registered Pension Plan (the Plan) and the Provincial Judges and Masters in Chambers Unregistered Pension Plan (Unregistered Plan), reference should be made to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, *Court of Queen's Bench Act*, Revised Statutes of Alberta 2000, Chapter C-31, *Financial Administration Act*, Revised Statutes of Alberta 2000, Chapter F-12, and *Alberta Regulation 196/2001*, as amended. The Plan and Unregistered Plan are administered and accounted for by the Province of Alberta separately; however, the regulation allows for the financial report of both the Plan and the Unregistered Plan to be combined within the same report. Note 15 provides the financial report of the Unregistered Plan. The financial statements and notes of the Plan do not include the Unregistered Plan disclosed in Note 15.

a) GENERAL

Effective April 1, 1998, the Plan is a contributory defined benefit pension plan for Provincial Judges and Masters in Chambers of the Province of Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The registered number is 0927764. The Minister of Alberta Finance is the legal trustee for the Plan and Alberta Finance is management of the Plan.

b) FUNDING POLICY

Current service costs are funded by the Province of Alberta and Plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2012 are 7.00% of *capped salary* for plan members and 14.65% of *capped salary for* the Province of Alberta. The rates are reviewed at least once every three years by the Province of Alberta based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Together the Plan and Unregistered Plan provide a pension based on 2 percent of a member's highest average salary for years of pensionable service before April 1, 1998; 2.67 percent of a member's highest average for years of pensionable service between April 1, 1998 to March 21, 2000 and 3 percent of a member's highest average salary for years of pensionable service after March 31, 2000. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable *salary limit* under the *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%. The normal pensionable age is 70 years of age.

Members who terminated after March 31, 1998 are entitled to an unreduced pension on service after 1991 and before April 1,1998 if they have 5 years of service and have attained

Other Information

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

the age of 55 years with the sum of his or her age and judicial service amounting to at least 80 years, or has attained the age of 60 years.

Members are entitled to an unreduced pension on service after March 31,1998 if they retire with at least 5 years of service and have attained the age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members who have attained age 70.

d) DISABILITY BENEFITS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

g) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province 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 for persons who terminated before April 1, 2009. For persons who terminated after March 31, 2009, pensions payable are increased each year on January 1st by an amount equal to 100% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation for pension plans. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under the Canadian Institute of Chartered Accountants (CICA) Section 4600 on April 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3k) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 7) and benefit payments (Note 10).

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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF ASSETS AND LIABILITIES

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of infrastructure investments is estimated by managers or general partners of limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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.

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 the values that would have been used had a ready market existed for these investments.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

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

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) 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 3k) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. 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 index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

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

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

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

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask price quoted by an independent securities valuation company.

f) VALUE OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation 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 pension obligation, and

ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that 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 pension obligation 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.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

	($ thousands)			
	2012		2011	
	Fair Value		Fair Value	
		%		%
Interest bearing securities				
Deposits and short-term securities [(a)]	$ 377	0.4	$ 1,648	1.7
Bonds and mortgages [(b)]	41,229	40.3	41,158	41.5
	41,606	40.7	42,806	43.2
Public equities				
Canadian [(c)]	15,610	15.3	13,132	13.2
Global developed [(d)]	34,725	34.0	34,821	35.1
Emerging markets [(e)]	573	0.6	248	0.2
	50,908	49.8	48,201	48.5
Alternative investments and hedge funds				
Absolute return strategy hedge funds [(f)]	-	-	963	1.0
Real estate [(g)]	5,013	4.9	3,937	4.0
Real return bonds [(h)]	595	0.6	511	0.5
Infrastructure and private debt and loans [(i)]	4,096	4.0	2,826	2.8
	9,704	9.5	8,237	8.3
Total investments [(j)(k)]	**$ 102,218**	**100.00**	**$ 99,244**	**100.0**

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

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of $377 (2011: $1,562) and short-term securities of nil (2011: $86). Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

b) Investments in bond and mortgage pooled funds include policy allocations to universe bonds totalling $37,392 (2011: $37,106) and mortgages totalling $3,837 (2011: $4,052). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

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

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity pooled funds invest in directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The pooled funds also have indirect exposure to global developed markets and emerging markets through investments in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the pooled fund's global portfolio includes investments in North American concentrated equities (5 to 20 per cent share of mid-sized North American Companies) and hedge funds.

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

f) During the year, assets from the Absolute Return Strategies hedge fund pool were moved into the global equities asset class.

g) Real estate investments are held in Canadian (89%) and foreign (11%) real estate pooled funds. Real estate is held primarily through intermediary companies which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities.

h) The Plan holds units of a pooled fund which invests in inflation sensitive real return bonds. This pooled fund is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at March 31, 2012 are reported in Note 4c.

i) Pooled funds invest in infrastructure partnerships totalling $3,658 (2011: $2,669) and private debt and loans totalling $438 (2011: $157). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks). Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade (i.e., BB or lower). These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

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

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

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models.

NOTE 3 INVESTMENTS CONTINUED

Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable data. Reasonably possible alternative assumptions could yield different fair value measures. As a result, a significant range of measurement uncertainty exists in the valuation of Level 3 investments.

	($ thousands)			
Investment:	**Level One**	**Level Two**	**Level Three ***	**Total**
Interest bearing securities	$ -	$ 37,769	$ 3,837	$ 41,606
Public equities	33,358	13,700	3,850	50,908
Alternative investments and hedge funds	-	595	9,109	9,704
2012 - Total Amount	**$ 33,358**	**$ 52,064**	**$ 16,796**	**$ 102,218**
- Percent	**33%**	**51%**	**16%**	**100%**
2011 - Total Amount	$ 31,779	$ 52,955	$ 14,510	$ 99,244
- Percent	32%	53%	15%	100%
Increase (decrease) during the year	**$ 1,579**	**$ (891)**	**$ 2,286**	**$ 2,974**

*** Reconciliation of Level 3 Fair Value Measurements**

	($ thousands)	
	2012	**2011**
Balance, beginning of year	$ 14,510	$ 12,347
Investment income	2,045	1,363
Purchases of Level 3 pooled fund units	5,052	2,909
Sale of Level 3 pooled fund units	(4,811)	(2,109)
Balance, end of year	**$ 16,796**	**$ 14,510**

k) Included in the fair value of the Plan's investments in various pooled funds, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.
At March 31, 2012, the net fair value of derivative related investments, including deposits in futures contracts margin accounts totalled $938, or 0.9% (2011: $929 or 0.9%) of total investments.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at March 31, 2012:

	2012					2011	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
	%			($ thousands)			
Equity replication derivatives [(c)]	95	5	-	$ 46,600	$ 894	$ 51,211	$ 174
Interest rate derivatives [(d)]	59	22	19	22,257	220	20,335	231
Foreign currency derivatives [(e)]	100	-	-	17,546	(45)	37,528	102
Credit risk derivatives [(f)]	33	18	49	22,812	(281)	23,208	(215)
Derivative related receivables, net					788		292
Deposits in futures margin accounts					139		637
Deposits as collateral for derivative contracts					11		-
Net derivative related investments					$ 938		$ 929

Net derivative related receivables of $788 are comprised of net receivables from counterparties of $1,430 and net payables to counterparties of $642. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants, and options.

(d) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

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

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

At March 31, 2012, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled ($34).

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G. The SIP&G is approved by the Judges' Pension Plans Investment Committee. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

of risk. AIMCo manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3k).

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

	%		
	Policy Benchmark	Minimum	Maximum
Interest bearing securities	**42**	**40**	**50**
Deposits and short-term securities	1	-	5
Bonds and Mortgages	41	35	50
Equities and alternative investments	**58**	**50**	**65**
Public equities			
Canadian	15	10	25
Global developed	32	20	50
Emerging markets	-	-	5
Absolute return strategy hedge funds	2	-	5
Inflation sensitive			
Real estate	5	-	10
Real return bonds	-	-	-
Infrastructure	4	-	6

a) CREDIT RISK

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

The Plan is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Plan's investment in debt securities by counterparty credit rating at March 31, 2012:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	93%
Speculative Grade (BB+ or lower)	0%
Unrated	7%
	100%

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3k). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Plan is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 32% of the Plan's investments, or $32 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (17%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.2% (2011: 4.1%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at March 31, 2012:

Currency	($ millions) 2012 Fair Value	Sensitivity
U.S. dollar	$ 18	$ (1.8)
Euro	4	(0.4)
Japanese yen	3	(0.3)
British pound	3	(0.3)
Australian dollar	1	(0.1)
Swiss franc	1	(0.1)
Other foreign currencies	2	(0.2)
Total foreign currency investments	$ 32	$ (3.2)

c) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately 2.6% (2011: 2.3%) of total investments.

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	91%	9%	0%	1.3%
Bonds and mortgages	4%	44%	52%	4.6%
Real return bonds	12%	1%	87%	0.5%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Plan's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 5.2% (2011: 4.2%) of total investments. Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

e) LIQUIDITY RISK

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3k).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Johnson Inc. and the results were then extrapolated to March 31, 2012 by the current actuary, Aon Hewitt.

The actuarial assumptions used in determining the value of the pension obligation of $103,599 (2011: $94,047) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment rate of return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2012 %	2011 %
Discount rate	5.70	6.10
Inflation rate	2.25	2.25
Salary escalation rate	3.50	3.50

An actuarial valuation of the Plan as at December 31, 2011 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2013.

Judicial Compensation Commission

The Judicial Compensation Commission Regulation is constituted in the *Alberta Provincial Judges and Masters in Chambers Compensation Commission Regulation*. An Order-in Council, issuing a Judicial Compensation Order as required under the regulation, was signed December 15, 2011. Pursuant to that Order, the Commission's recommendations for salary increases and enhancement to the Plan's cost of living indexing were approved. This impact was included in the actuarial extrapolation of March 31, 2012.

NOTE 5 PENSION OBLIGATION CONTINUED

NET EXPERIENCE GAINS

Net experience gains of $93 (2011: $2,855) arose from differences between the actuarial assumptions used in the 2008 valuation and 2012 extrapolation for reporting compared to actual results.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The Plan's future experience will differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2012:

	Sensitivities		
	Changes in Assumptions	**Decrease in Plan Surplus**	**Increase in Current Service Cost***
	%	*($ millions)*	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	7.1	2.6%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	0.0	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	11.6	4.7%

* As a % of capped pensionable earnings

NOTE 6 (DEFICIT) SURPLUS

	($ thousands) 2012	2011
Surplus (deficit) at beginning of year	$ 5,163	$ (1,720)
Increase in net assets available for benefits	3,617	7,632
Net increase in pension obligation	9,552	749
(Deficit) surplus at end of year	$ (772)	$ 5,163

NOTE 7 CONTRIBUTIONS

	($ thousands) 2012	2011
Current service		
Employer	$ 2,456	$ 2,068
Employees	1,174	1,088
Province of Alberta	1,005	2,260
	$ 4,635	$ 5,416

NOTE 8 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

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

	($ thousands) 2012	2011
Interest-bearing securities	$ 3,719	$ 2,634
Canadian equities	(848)	2,450
Foreign equities	2,003	3,122
Absolute return strategies	68	143
Real estate	950	421
Real return bonds	84	49
Infrastructure and private debt and loans	300	210
	$ 6,276	**$ 9,029**

NOTE 9 INVESTMENT PERFORMANCE (NET OF INVESTMENT EXPENSES)

Estimated investment returns (net of fees) as shown below are provided for supplementary information purposes. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses which have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

	2012	2011 (restated) [d]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Eighteen-Year Compound Annualized Return
Time-weighted rates of return [a]			*in percent*		
Estimated return	**6.1**	**9.7**	**3.6**	**5.6**	**7.1**
Estimated policy benchmark return [b]	*5.3*	*9.4*	*3.9*	*5.6*	*7.0*
Value added (lost) by investment manager	0.8	0.3	(0.3)	0.0	0.1
Expected value added [c]	0.5	0.5	0.5	0.5	0.5

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

(b) Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, hedge funds and private debt. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Plan's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Judges Pension Plans Investment Committee expects that the investments held by the Plan will return approximately 50 basis points, or 0.5%, above the policy benchmark over 4-year rolling time periods.

(d) The benchmark returns reported for 2011 have been restated to conform with changes made by AIMCo subsequent to the completion of the 2011 financial statements. As a result, the benchmark return changed from 9.3% to 9.4%

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2012	2011
Retirement benefits	$6,362	$6,082
Termination benefits	35	-
Death benefits	408	372
	$ 6,805	$ 6,454

NOTE 11 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses are provided below:

	($ thousands) 2012	2011
Interest-bearing securities	$ 51	$ 32
Canadian equities	22	12
Foreign equities	150	81
Absolute return strategies	10	9
Real estate	19	16
Infrastructure and private debt and loans	29	27
Plan Investment expenses	113	83
Total investment expenses	$ 394	$ 260
Average fair value of investments	$ 100,731	$ 95,199
Percent of investments at average fair value	0.39%	0.27%
Investment expenses per member	$ 1,498	$ 977

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2012	2011
General administration costs	$ 85	$ 81
Board costs	4	1
Actuarial fees	6	17
	95	99
Member service expenses per member	$ 361	$ 371

Administrative expenses are paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and administrative expenses per Note 12 are $489 (2011: $358) or $1,859 (2011: $1,348) per member and 0.48% (2011: 0.36%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Employment Pension Plans Act,* the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, including the use of derivatives and leverage are based on the Plan's SIP&G as approved by the Judges Pension Plan's Investment Committee. The asset mix and risk policies and procedures are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk.

If there is an actuarial funding surplus that exceeds the amount that is actuarially determined to be necessary to pay benefits and the costs of administering the Plan, the Lieutenant Governor in Council may, with respect to any portion or all of the excess, transfer it to the Government of Alberta General Revenue Fund, or apply it towards reduction of the contributions for which the Government is liable.

If the Plan is terminated and the Plan's assets are not sufficient to pay all the benefits accrued under the terms of the Plan, additional contributions are payable by the Government of Alberta in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Plan, assets remain in the Plan, those assets shall be transferred to the General Revenue Fund of the Government of Alberta.

NOTE 15 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION 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, 2012 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, 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 financial position for the Unregistered Plan as at March 31, 2012 and changes in net assets available for benefits and changes in pension obligation for the year then ended is as follows:

Statements of Financial Position

	($ thousands)	
	2012	**2011**
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents	$ 638	$ 2,086
Income tax refundable	5,994	6,491
Contributions receivable		
Employer	910	$ -
Employee	924	$ -
Due from Reserve Fund (a)	96,094	82,848
Total Assets	104,560	91,425
Liabilities		
Accounts payable	107	-
Total Liabilities	107	-
Net assets available for benefits	104,453	91,425
Pension obligation and deficit		
Pension obligation	109,433	83,218
(Deficit) surplus	(4,980)	8,207
Pension obligation and deficit	$ 104,453	$ 91,425

a) Contributions from the Province of Alberta as determined by the Minister of Finance based on recommendations by the Unregistered Plan's actuary are collected and held in the Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund)*. These contributions are invested by the Province to meet future benefit payments of the Unregistered Plan over the long term.

Statements of Changes in Net Assets Available for Benefits

	2012 ($ thousands)	2011 ($ thousands)
Increase in assets		
Current and optional service		
Employer	$ 1,785	$ 840
Employee	$ 1,801	840
Increase in due from Reserve Fund	13,246	12,613
Investment loss	(31)	(25)
	16,801	14,268
Decrease in assets		
Pension benefits and refunds	3,695	3,121
Administration costs	78	80
	3,773	3,201
Increase in net assets	13,028	11,067
Net assets at beginning of year	91,425	80,358
Net assets at end of year	$ 104,453	$ 91,425

Statements of Changes in Pension Obligation

	2012 ($ thousands)	2011 ($ thousands)
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 4,761	$ 4,736
Benefits earned	5,202	5,849
Net increase due to actuarial assumption changes	2,210	542
Impact of Judicial Compensation Commission	17,779	-
	29,952	11,127
Decrease in pension obligation		
Benefits, transfers and interest	3,695	3,121
Net experience gains (Note 5b)	42	6,614
	3,737	9,735
Net increase in pension obligation	26,215	1,392
Pension obligation at beginning of year	83,218	81,826
Pension obligation at end of year (Note 5)	$ 109,433	$ 83,218

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Johnson Inc. and the results were then extrapolated to March 31, 2012 by the current actuary, Aon Hewitt.

The major assumptions used in the actuarial extrapolation to March 31, 2012, were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 5.5% per annum until the year 2016 and 5.7% per annum thereafter (see Note 5).

The Unregistered Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Unregistered Plan.

* The March 31, 2012 financial statements of the Reserve Fund are available in the Alberta Finance 2012 Annual Report.

NOTE 16 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2012 presentation.

NOTE 17 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan Advisory Committee.

SCHEDULE A

SCHEDULE OF THE PROVINCIAL JUDGES AND MASTER IN CHAMBERS (REGISTERED) PENSION PLAN (THE PLAN) AND THE PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (UNREGISTERED PLAN)

The following Schedule is provided for illustrative purposes only. The Provincial Judges and Masters in Chambers (Registered) Pension Plan and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan are independent entities and, as such, there is no right of offset of these individual liabilities and assets. Data is provided using fair value of assets (not actuarial or "smoothed" values), as presented in the respective financial statements.

	($ thousands)	
	March 31, 2012	March 31, 2011
Net assets available for benefits - Registered Plan	$ 102,827	$ 99,210
Net assets available for benefits - Unregistered Plan *	104,453	91,425
	207,280	190,635
Pension Obligation - Registered Plan	103,599	94,047
Pension Obligation - Unregistered Plan	109,433	83,218
	213,032	177,265
Excess (deficiency) of aggregate assets over aggregate accrued benefits	$ (5,752)	$ 13,370

* Includes due from Reserve Fund for 2012 $96,094 (2011: $82,848)

Other Information

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PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

To the Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Plan as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation, for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 25, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands) 2011	2010
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 7,029	$ 4,018
Accounts receivable	51	34
Total Assets	7,080	4,052
Net assets available for benefits	$ 7,080	$ 4,052
Pension obligation and deficit		
Pension obligation (Note 3)	$ 629,216	$ 632,365
Deficit (Note 4)	(622,136)	(628,313)
Pension obligation and deficit	$ 7,080	$ 4,052

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

	($ thousands) 2011	2010
Increase in assets		
Contributions from the Province of Alberta	$ 60,000	$ 60,000
Investment income	79	38
	60,079	60,038
Decrease in net assets		
Benefit payments (Note 6)	56,785	57,903
Administration expenses (Note 7)	266	348
	57,051	58,251
Increase in net assets	3,028	1,787
Net assets available for benefits at beginning of year	4,052	2,265
Net assets available for benefits at end of year	$ 7,080	$ 4,052

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31

	2011	2010
	($ thousands)	
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 30,199	$ 31,491
Net increase due to actuarial assumption changes (Note 3a)	23,437	-
	53,636	31,491
Decrease in pension obligation		
Benefits paid	56,785	57,903
	56,785	57,903
Net decrease in pension obligation	(3,149)	(26,412)
Pension obligation at beginning of year	632,365	658,777
Pension obligation at end of year (Note 3)	$ 629,216	$ 632,365

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 1006923. The Minister of Alberta Finance is the legal trustee for the Plan and Alberta Finance is management of the Plan.

b) PLAN FUNDING

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of service. In addition, those members who had achieved 35 years of service at August 1, 1992 and subsequently terminated are also entitled to a pension.

d) COST-OF-LIVING ADJUSTMENTS

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to benefit payments (Note 6).

b) VALUATION OF CASH AND CASH EQUIVALENTS

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 6th business day following the year end.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

While best estimates have been used in the calculation of the Plan's actuarial value of the pension obligation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the pension obligation (see Note 3(a)).

f) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Aon Hewitt and was then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the pension obligation of $629,216 (2010: $632,365) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate and inflation rate.

The major assumptions used for accounting purposes were:

	2011	2010
	%	%
Inflation rate	2.25	2.25
Discount rate	4.50	5.00
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

An actuarial valuation of the Plan as at December 31, 2011 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 2012.

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, 2011:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	$ 32,433
Discount rate decrease holding the inflation rate assumption constant	(1.0)	57,771

NOTE 4 DEFICIT

	($ thousands)	
	2011	2010
Deficit at beginning of year	$ (628,313)	$ (656,512)
Increase in net assets available for benefits	3,028	1,787
Net decrease in pension obligation	3,149	26,412
Deficit at end of year	$ (622,136)	$ (628,313)

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund. The Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2011, securities held by the Fund have a time weighted rate of return of 1.3% per annum (2010: 0.8% per annum).

NOTE 6 BENEFIT PAYMENTS

	($ thousands)	
	2011	2010
Retirement benefits	$ 54,846	$ 55,738
Disability benefits	302	301
Termination benefits	-	182
Death benefits	1,637	1,682
	$ 56,785	$ 57,903

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands) 2011	2010 (restated)
General administration costs	$ 238	$ 307
Investment management costs	11	17
Actuarial fees	3	10
Audit fees	14	14
	$ 266	$ 348

General administration costs were paid to Alberta Pensions Services Corporation on a cost-recovery basis. The Plan's share of the Corporation's operating and plan specific costs were based on cost allocation policies approved by the Minister of Alberta Finance.

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 $119 (2010: $149) per member.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance based on information provided by Alberta Pensions Services Corporation and the Plan's actuary.

PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance,
and the Public Service Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 25, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands) 2011	2010
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 6,470,108	$ 6,159,292
Contributions receivable		
Employers	5,119	4,826
Employees	5,130	4,828
Accrued investment income and accounts receivable	6,975	151
Total Assets	6,487,332	6,169,097
Liabilities		
Accounts payable	6,567	2,577
Total Liabilities	6,567	2,577
Net assets available for benefits	$ 6,480,765	$ 6,166,520
Pension obligation and deficit		
Pension obligation (Note 5)	$ 8,271,148	$ 8,233,671
Deficit (Note 6)	(1,790,383)	(2,067,151)
Pension obligation and deficit	$ 6,480,765	$ 6,166,520

The accompanying notes are part of these financial statements.

Other Information

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

	($ thousands) 2011	2010
Increase in assets		
Contributions (Note 7)	$ 456,960	$ 454,772
Investment income (Note 8)	230,357	563,803
Transfers from other plans	2,866	5,438
	690,183	1,024,013
Decrease in assets		
Benefit payments (Note 10)	330,988	302,966
Transfers to other plans	14,348	11,807
Investment expenses (Note 11)	19,827	19,281
Administrative expenses (Note 12)	10,775	11,585
	375,938	345,639
Increase in net assets	314,245	678,374
Net assets available for benefits at beginning of year	6,166,520	5,488,146
Net assets available for benefits at end of year	$ 6,480,765	$ 6,166,520

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31

	($ thousands)	
	2011	**2010**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 537,398	$ 476,554
Benefits earned	326,558	296,604
	863,956	773,158
Decrease in pension obligation		
Benefits, transfers and interest	345,336	314,773
Net decrease (increase) due to actuarial assumption changes (Note 5a)	351,871	(628,109)
Net experience gains (Note 5b)	129,272	70,165
	826,479	(243,171)
Net increase in pension obligation	37,477	1,016,329
Pension obligation at beginning of year	8,233,671	7,217,342
Pension obligation at end of year (Note 5)	$ 8,271,148	$ 8,233,671

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the Public Service Pension Plan Alberta Regulation 368/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension Plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.

The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0208769. The Minister of Alberta Finance is the legal trustee for the Plan and Alberta Finance is management of the Plan. The Plan is governed by the Public Service Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded equally by employers and employees at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect for 2011 were 9.10% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 13.00 % of the excess for employees. Employers provide matching contributions.

The contribution rates were reviewed by the Board in 2010 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have increased at January 1, 2012 as follows: 9.90% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.14 % of the excess with matching contribution by Employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

The Plan's formula pension is paid monthly for the member's lifetime. Should the member die before 60 monthly payments have been made, the balance of the 60 payments are paid to the member's beneficiary or estate, as the case may be. The member may choose to have the formula pension paid in a form having different survivor benefits subject to the formula pension being adjusted to reflect the relative value of the survivor benefits.

d) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of regular service and are not immediately entitled to a pension may receive the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions, if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest. The refunds are accounted for as refunds to members on the Statements of Changes in Net Assets Available for Benefits.

e) DISABILITY BENEFITS

Unreduced pensions may be payable to members who become totally disabled and have at least two years of service. Reduced pensions may be payable to members who become partially disabled and have at least two years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

f) DEATH BENEFITS

Death benefits are payable on the death of a member prior to retirement. If the member has at least two years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3n) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 7) and benefit payments (Note 10).

The Plan invests in units of 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF INVESTMENTS

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

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

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

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.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

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. Administrative expenses are recorded on an accrual basis.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) 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 3n) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. 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 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.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

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 pension obligation, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, 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 pension obligation, 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 pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

	($ thousands)			
	2011		2010	
	Fair Value		Fair Value	
		%		%
Money market				
Deposits and short-term securities [(a)]	$ 52,154	0.8	$ 140,167	2.3
Absolute return strategy hedge funds [(b)]	-	-	180,626	2.9
	52,154	0.8	320,793	5.2
Bonds and mortgages [(c)]				
Liability matching assets	1,322,888	20.4	656,591	10.7
Other fixed income	890,253	13.8	733,364	11.9
	2,213,141	34.2	1,389,955	22.6
Equities				
Canadian public [(d)]	761,017	11.8	990,638	16.1
Global developed public [(e)]	2,300,374	35.5	2,337,882	38.0
Emerging markets public [(f)]	228,442	3.5	143,547	2.3
Private [(g)]	94,349	1.5	100,591	1.6
	3,384,182	52.3	3,572,658	58.0
Alternatives				
Real estate [(h)]	357,803	5.5	288,756	4.7
Real return bonds [(i)]	-	-	257,490	4.2
Infrastructure and private debt and loans [(j)]	367,062	5.7	194,685	3.1
Collaterized commodity [(k)]	-	-	99,499	1.6
Timberland [(l)]	95,766	1.5	35,456	0.6
	820,631	12.7	875,886	14.2
Total investments [(m) (n)]	**$ 6,470,108**	**100.0**	**$ 6,159,292**	**100.0**

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund of $52,154 (2010: $136,392) and short-term securities of $nil (2010: $3,775). Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

b) Effective October 2011, hedge fund assets were transferred to the global developed portfolio (see Note 3e).

c) The bond and mortgage portfolio includes allocations to liability matching assets and other fixed income. Liability matching assets are fixed income securities that match the characteristics of the Plan's liabilities. Liability matching assets includes long government bonds totalling $758,890 (2010: $656,591) and real return bonds totalling $563,998 (2010: $nil). Other fixed income includes universe bonds totalling $658,467 (2010: $490,797), and mortgages totalling $232,786 (2010: $242,567). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives, loans and inflation sensitive real return bonds, primarily issued by the Government of Canada and bearing interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

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

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

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

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

h) The real estate portfolio holds assets in Canada totalling $327,362 (2010: $284,551) and other countries totalling $30,441 (2010: $4,205). Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

i) Effective July 1, 2011, the inflation sensitive real return bonds were reclassified into the liability matching assets security class (see Note 3c).

j) The infrastructure and private portfolio includes investments in infrastructure partnerships totalling $335,281 (2010: $190,229) and investments in private debt and loans totalling $31,781 (2010: $4,456). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks). Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

k) In July 2011, the Plan sold its units of the Collateralized Commodity Futures Pool.

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

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

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

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three*	Total
Money market	$ -	$ 52,154	$ -	$ 52,154
Bonds and mortgages	-	1,981,355	231,786	2,213,141
Equities	2,187,598	784,333	412,251	3,384,182
Alternatives	-	-	820,631	820,631
2011 - Total Amount	**$ 2,187,598**	**$ 2,817,842**	**$ 1,464,668**	**$ 6,470,108**
- Percent	**34%**	**43%**	**23%**	**100%**
2010 - Total Amount	$ 2,256,499	$ 2,673,745	$ 1,229,048	$ 6,159,292
- Percent	38%	42%	20%	100%
(Decrease) increase during the year	**$ (68,901)**	**$ 144,097**	**$ 235,620**	**$ 310,816**

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)	
	2011	**2010**
Balance, beginning of year	$ 1,229,048	$ 1,073,068
Investment income	130,422	118,320
Purchases of Level 3 pooled fund units	531,914	277,410
Sale of Level 3 pooled fund units	(426,716)	(239,750)
Balance, end of year	**$ 1,464,668**	**$ 1,229,048**

NOTE 3 INVESTMENTS CONTINUED

n) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash collateral and deposits in futures contracts margin accounts, totalled $68,284 or 1.1% of total investments (2010: $91,539 or 1.5% of total investments).

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

($ thousands)

	2011					2010	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
		%					
Equity replication derivatives [(c)]	94	6	-	$ 3,688,441	$ 32,953	$ 3,253,901	$ 56,056
Interest rate derivatives [(d)]	47	17	36	672,465	(573)	631,830	(7,117)
Foreign currency derivatives [(e)]	100	-	-	1,751,292	(748)	1,099,866	3,767
Credit risk derivatives [(f)]	17	20	63	293,517	(5,384)	290,870	(3,127)
Derivative related receivables, net					26,248		49,579
Deposits in futures margin accounts					42,018		41,960
Deposits as collateral for derivative contracts					18		-
Net derivative related investments					$ 68,284		$ 91,539

Net derivative related receivables of $26,248 are comprised of net receivables from counterparties of $74,017 and net payables to counterparties of $47,769. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants, and options.

(d) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

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

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

At December 31, 2011, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $(912) (2010: $425).

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3n).

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

Money market	0-3%
Bonds and mortgages	
Liability matching assets	12-25%
Other fixed income	6-12%
Equities	41-55%
Alternatives	20-30%

a) CREDIT RISK

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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The Plan is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2011:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	88%
Speculative Grade (BB+ or lower)	0%
Unrated	12%
	100%

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3n). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Plan is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 41% of the Plan's investments, or $2,685 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the euro (5%).

If the value of the Canadian dollar increased by 10%against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately $269 million (2010: $303 million).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2011:

	($ millions) 2011	
Currency	**Fair Value**	**Sensitivity**
U.S. dollar	$ 1,393	$ (139)
Euro	330	(33)
Japanese yen	220	(22)
British pound	217	(22)
Australian dollar	129	(13)
Swiss franc	67	(7)
Other foreign currencies	329	(33)
Total foreign currency investments	$ 2,685	$ (269)

c) **INTEREST RATE RISK**

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately $215 million (2010: $166 million).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	**< 1 year**	**1 - 5 years**	**Over 5 years**	**Average Effective Market Yield**
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	2%	26%	72%	3.8%
Real return bonds	7%	2%	91%	0.5%

d) **PRICE RISK**

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Plan's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately $286 million (2010: $298 million). Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

e) **LIQUIDITY RISK**

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3n).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2010 by Aon Hewitt and results were then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the pension obligation of $8,271,148 (2010: $8,233,671) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2011	2010
	%	
Discount rate	6.60	6.40
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2011 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 2012.

b) NET EXPERIENCE GAINS

Net experience gains of $129,272 (2010: $70,165) arose from differences between the actuarial assumptions used in the 2010 valuation and 2011 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings (1)
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	513,000	0.59
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	257,000	0.87
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,204,000	2.49

* The current service cost as a percentage of pensionable earnings is 13.85% at December 31, 2011.

NOTE 6 DEFICIT

	($ thousands)	
	2011	2010
Deficit at beginning of year	$ (2,067,151)	$ (1,729,196)
Increase in net assets available for benefits	314,245	678,374
Net increase in pension obligation	37,477	1,016,329
Deficit at end of year	$ (1,790,383)	$ (2,067,151)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2011	2010
Current service		
Employers	$ 226,627	$ 225,407
Employees	226,239	224,987
Past service		
Employers	989	708
Employees	3,105	3,670
	$ 456,960	$ 454,772

NOTE 8 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

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

	($ thousands) 2011	2010
Interest-bearing securities	$ 187,876	$ 134,480
Absolute return strategies	8,198	21,839
Canadian equities	(65,306)	157,702
Foreign equities	(70,476)	160,169
Private equities	7,888	10,253
Real estate	62,434	31,521
Real return bonds	71,183	25,734
Infrastructure and private debt and loans	7,725	17,497
Collateralized commodities	3,490	4,042
Timberland	17,345	566
	$ 230,357	**$ 563,803**

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

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

	2011	2010 (restated) [d]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Eighteen-Year Compound Annualized Return
Time-weighted rates of return [a]			*in percent*		
Actual gain	**3.3**	**9.7**	**1.1**	**5.1**	**6.7**
Policy Benchmark gain [b]	*2.7*	*10.4*	*2.0*	*5.3*	*6.7*
Value added (lost) by investment manager	0.6	(0.7)	(0.9)	(0.2)	0.0
Expected value added [c]	0.85	0.85	0.85	0.85	0.85

(a) Investment returns are provided by AIMCo. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In the SIP&G, the Public Service Pension board expects that the investments held by the Plan will return approximately 85 basis points, or 0.85%, above the policy benchmark over 4-year rolling time periods.

(d) The actual and benchmark returns reported for 2010 have been restated to conform with changes made by AIMCo subsequent to the completion of the 2010 financial statements. As a result, the actual return in 2010 changed from 9.6% to 9.7% and the benchmark return changed from 10.6% to 10.4%.

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2011	2010
Retirement benefits	$ 249,864	$ 231,176
Disability benefits	2,038	2,119
Termination benefits	59,039	47,889
Death benefits	20,047	21,782
	$ 330,988	$ 302,966

NOTE 11 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses are provided below:

	($ thousands) 2011	2010
Interest-bearing securities	$ 2,173	$ 1,764
Absolute return strategies	1,528	1,605
Canadian equities	1,363	1,230
Foreign equities	8,009	8,495
Private equities	2,161	2,307
Real estate	1,531	1,178
Real return bonds	428	180
Infrastructure and private debt and loans	1,960	2,079
Collateralized commodities	81	143
Timberland	593	300
Total investment expenses	$ 19,827	$ 19,281
Average fair value of investments	$ 6,314,700	$ 5,825,487
Percent of investments at average fair value	0.31%	0.33%
Investment expenses per member	$ 257	$ 248

Other Information

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2011	2010
General administration costs	$ 10,458	$ 11,134
Board costs	23	28
Actuarial fees	91	116
Audit fees	44	40
Other professional fees	159	267
	10,775	11,585
Member service expenses per member	$ 140	$ 149

General administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and Plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and administrative expenses per Note 12 are $30,602 (2010: $30,866) or $397 (2010: $397) per member and 0.47% (2010: 0.50%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's surplus (deficit) is determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $6,739,000 at December 31, 2011 (2010: $6,577,000). In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by the December 31, 2010 actuarial funding valuation are expected to be funded by special payments shared equally between employees and employers in the following amounts:

2.76% of pensionable earnings until December 31, 2017, plus
0.16% of pensionable earnings until December 31, 2020, plus
3.76% of pensionable earnings until December 31, 2023, plus
0.26% of pensionable earnings from January 1, 2012 until December 31, 2025

The special payments have been included in the rates shown in Note 1(b).

NOTE 15 COMPARATIVE FIGURES

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

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance,
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 25, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands) 2011	2010
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,543,615	$ 1,488,917
Contributions receivable		
Employers	2,364	2,163
Employees	2,204	2,015
Province of Alberta	414	465
Accrued investment income and accounts receivable	1,387	18
Total Assets	1,549,984	1,493,578
Liabilities		
Accounts payable	84	126
Liability for investment purchases	168	90
Total Liabilities	252	216
Net assets available for benefits	$ 1,549,732	$ 1,493,362
Pension obligation and deficit		
Pension obligation (Note 5)		
Plan Fund	$ 2,124,216	$ 2,044,927
Indexing Fund	34,788	29,132
	2,159,004	2,074,059
Deficit (Note 6)	(609,272)	(580,697)
Pension obligation and deficit	$ 1,549,732	$ 1,493,362

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

($ thousands)

	2011			2010
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 7)	$ 96,078	$ 5,127	$ 101,205	$ 87,640
Investment income (Note 8)	45,159	904	46,063	143,783
COLA transfer increase (decrease) (Note 15)	300	(300)	-	-
	141,537	5,731	147,268	231,423
Decrease in assets				
Benefit payments (Note 10)	84,274	-	84,274	79,416
Transfers to other plans	-	-	-	2
Investment expenses (Note 11)	5,043	75	5,118	4,879
Administrative expenses (Note 12)	1,506		1,506	1,445
	90,823	75	90,898	85,742
Increase in net assets	50,714	5,656	56,370	145,681
Net assets available for benefits at beginning of year	1,464,230	29,132	1,493,362	1,347,681
Net assets available for benefits at end of year	$ 1,514,944	$ 34,788	$ 1,549,732	$ 1,493,362

The accompanying notes are part of these financial statements.

Other Information

Statements of Changes in Pension Obligation

Year ended December 31

($ thousands)

	2011			2010
	Pre-1992	Post-1991	Total	Total
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 51,531	$ 75,356	$ 126,887	$ 119,196
Benefits earned	-	70,374	70,374	53,065
Cost-of-living indexing adjustments and interest	(962)	5,348	4,386	40,590
	50,569	151,078	201,647	212,851
Decrease in pension obligation				
Benefits, transfers and interest	56,528	29,766	86,294	81,503
Net decrease (increase) due to actuarial assumptions changes (Note 5a)	9,138	21,270	30,408	(220,103)
	65,666	51,036	116,702	(138,600)
Net increase in pension obligation	(15,097)	100,042	84,945	351,451
Pension obligation at beginning of year	844,775	1,229,284	2,074,059	1,722,608
Pension obligation at end of year (Note 5)	$ 829,678	$ 1,329,326	$ 2,159,004	$ 2,074,059

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The Minister of Alberta Finance is the legal trustee for the Plan and Alberta Finance is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board).

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2008.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2011 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2011 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Of this, contribution rates towards current service were 9.69% of pensionable salary for employers and 8.59% for employees. Contributions towards the post-1991 actuarial deficiency were 3.36% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2011 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA of 0.75% each (refer to the Indexing Fund in note 1b) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2011 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a lifetime pension of 1.4% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the *Income Tax Act*. An additional temporary bridge benefit of 0.6% for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the Plan is 35 years.

For a member who has a pension partner at retirement, the pension plan provides that the pension will continue in the amount of 65% to the surviving pension partner for their remaining lifetime. For a member who does not have a pension partner at retirement, the pension is payable for the member's lifetime with a guarantee that the pension payment will not cease until a minimum of 60 monthly payments have been made

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the Act Schedule 4).

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2012, COLA at 30% (January 2011:30%) of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3l) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 7) and benefit payments (Note 10).

The Plan invests in units of 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. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF INVESTMENTS

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

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

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

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.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

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. Administrative expenses are recorded on an accrual basis.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) FOREIGN EXCHANGE

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

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 3l) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. 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 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.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

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 pension obligation, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, 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 pension obligation, 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 pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

	($ thousands)			
	2011		**2010**	
	Fair Value		**Fair Value**	
		%		%
Interest-bearing securities				
Cash and short-term securities [(a)]	$ 15,826	1.0	$ 15,801	1.1
Bonds and mortgages [(b)]	414,316	26.9	387,998	26.1
	430,142	27.9	403,799	27.2
Equities				
Canadian public equities [(c)]	272,216	17.6	270,732	18.2
Global developed public equities [(d)]	467,889	30.3	486,310	32.7
Private equities [(e)]	52,365	3.4	45,145	3.0
Emerging markets public equities [(f)]	64,778	4.2	55,428	3.7
	857,248	55.5	857,615	57.6
Inflation sensitive				
Real estate [(g)]	105,083	6.8	85,068	5.7
Infrastructure [(h)]	79,949	5.2	51,293	3.4
Real return bonds [(i)]	46,355	3.0	81,948	5.5
Timberland [(j)]	24,838	1.6	9,194	0.6
	256,225	16.6	227,503	15.2
Total investments [(k) (l)]	$ 1,543,615	100.0	$ 1,488,917	100.0

NOTE 3 INVESTMENTS CONTINUED

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund, totalling $15,826 (2010: $14,880) and short-term securities of $nil (2010: $921). Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

b) The bond and mortgage portfolio includes allocations to universe bonds totalling $130,094 (2010: $127,429), long government bonds totalling $226,568 (2010: $199,708) and mortgages totalling $57,654 (2010: $60,861). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

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

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

e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions.

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

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

h) The infrastructure portfolio includes investments in infrastructure partnerships totalling $61,346 (2010: $48,685) and investments in private debt and loans totalling $18,603 (2010: $2,608). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks). Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

i) The inflation sensitive real return bond portfolio is primarily made up of bonds that are issued by the Government of Canada, and bear interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

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

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

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

   Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

   Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

NOTE 3 INVESTMENTS CONTINUED

Investment:	Level one	Level two	Level three*	Total
	($ thousands)			
Interest-bearing securities	$ -	$ 372,488	$ 57,654	$ 430,142
Equities	548,659	211,519	97,070	857,248
Inflation sensitive	-	46,355	209,870	256,225
2011 - Total Amount	**$ 548,659**	**$ 630,362**	**$ 364,594**	**$ 1,543,615**
- Percent	**36%**	**41%**	**24%**	**100%**
2010 - Total Amount	$ 521,684	$ 675,416	$ 291,817	$ 1,488,917
- Percent	35%	45%	20%	100%
Increase (decrease) during the year	**$ 26,975**	**$ (45,054)**	**$ 72,777**	**$ 54,698**

* Reconciliation of Level 3 Fair Value Measurements

	2011	2010
	($ thousands)	
Balance, beginning of year	$ 291,817	$ 245,347
Investment income	33,361	25,528
Purchases of Level 3 pooled fund units	148,742	71,900
Sale of Level 3 pooled fund units	(109,326)	(50,958)
Balance, end of year	**$ 364,594**	**$ 291,817**

l) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash collateral and deposits in futures contracts margin accounts, totalled $15,652 or 1.0% of total investments (2010: $19,882 or 1.3% of total investments).

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

	2011					2010	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount [(a)]	Net Fair Value [(b)]	Notional Amount [(a)]	Net Fair Value [(b)]
		%					
Equity replication derivatives [(c)]	93	7	-	$ 823,861	$ 8,779	$ 683,000	$ 12,857
Interest rate derivatives [(d)]	46	20	34	160,572	(762)	146,085	(1,296)
Foreign currency derivatives [(e)]	100	-	-	417,119	(876)	208,796	29
Credit risk derivatives [(f)]	17	20	63	59,044	(1,061)	74,954	(806)
Derivative related receivables, net					6,080		10,784
Deposits in futures margin accounts					9,568		9,098
Deposits as collateral for derivative contracts					4		-
Net derivative related investments					$ 15,652		$ 19,882

($ thousands)

Other Information

Net derivative related receivables of $6,080 are comprised of net receivables from counterparties of $17,375 and net payables to counterparties of $11,294. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants, and options.

(d) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

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

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

At December 31, 2011, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $1,509 (2010: $540).

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3l).

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

Interest-bearing securities	
Money market (cash and short-term securities)	0-10%
Fixed income (bonds and mortgages)	18-38%
Equities	38-78%
Inflation sensitive	4-30%

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

a) CREDIT RISK

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

The Plan is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2011:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	88%
Speculative Grade (BB+ or lower)	0%
Unrated	12%
	100%

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3l). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Plan is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 39% of the Plan's investments, or $603 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (21%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately $60 million (2010: $67 million). The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2011:

	($ millions)	
	2011	
Currency	**Fair Value**	**Sensitivity**
U.S. dollar	$ 318	$ (32)
Euro	71	(7)
Japanese yen	46	(5)
British pound	44	(4)
Australian dollar	29	(3)
Swiss franc	14	(1)
Other foreign currencies	81	(8)
Total foreign currency investments	$ 603	$ (60)

c) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately $44 million (2010: $48 million).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	**< 1 year**	**1 - 5 years**	**Over 5 years**	**Average Effective Market Yield**
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	2%	22%	76%	3.8%
Real return bonds	7%	2%	91%	0.5%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Plan's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately $71 million (2010: $70 million). Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

e) LIQUIDITY RISK

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3l).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Mercer (Canada) Limited and was then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the liability for accrued benefits of 2,159,004 (2010: $2,074,059) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2011	2010
	%	
Discount rate	6.20	6.10
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2011 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 2012.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant **	1.0	124,039	0.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	42,784	1.9
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	(286,958)	4.4

* The current service cost as a % of pensionable earnings as determined by the December 31, 2011 extrapolation is 20.61%.
** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 6 DEFICIT

	($ thousands)			
	2011			2010
	Pre-1992	Post-1991	Total	Total
Deficit at beginning of year	$ (264,778)	$ (315,919)	$ (580,697)	$ (374,927)
Increase in net assets available for benefits	(30,285)	86,655	56,370	145,681
Net decrease/(increase) in pension obligation	15,097	(100,042)	(84,945)	(351,451)
Deficit at end of year	$ (279,966)	$ (329,306)	$ (609,272)	$ (580,697)

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

The following table summarizes the fair value of net assets, pension obligation, and the resulting Plan deficiency as at December 31, 2011:

	($ thousands)			
	2011			2010
	Pre-1992	Post-1991	Total	Total
Plan Fund net assets available for benefits	$ 549,712	$ 965,232	$ 1,514,944	$ 1,464,230
Plan Fund pension obligation	829,678	1,294,538	2,124,216	2,044,927
Plan Fund deficiency	$ (279,966)	$ (329,306)	$ (609,272)	$ (580,697)

As at December 31, 2011 the Indexing Fund held investments of $34,788 (2010: $29,132) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is $nil (2010: $nil).

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

Other Information

NOTE 7 CONTRIBUTIONS

	($ thousands) 2011	2010
Current service		
Employers	$ 35,734	$ 34,362
Employees	31,983	31,012
Unfunded liability		
Employers	14,037	8,462
Employees	14,037	8,462
Province of Alberta	4,269	4,083
Past service		
Employers	162	281
Employees	749	345
Transfers from other plans (net)	234	633
	$ 101,205	$ 87,640

NOTE 8 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The following is a summary of the Plan's investment income by asset class.

	($ thousands) 2011	2010
Interest-bearing securities	$ 51,766	$ 38,883
Canadian equities	(21,038)	44,360
Foreign equities	(22,134)	35,115
Private equities	2,983	3,342
Real estate	18,316	9,296
Real return bonds	8,750	8,175
Infrastructure	2,922	4,465
Timberland	4,498	147
	$ 46,063	**$ 143,783**

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2011	2010	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Eighteen-Year Compound Annualized Return
Time-weighted rates of return [a]			*(in percent)*		
Actual gain	2.7	10.2	1.4	5.3	6.8
Policy Benchmark gain [b]	2.2	10.5	2.4	5.5	6.8
Value added (lost) by investment manager	0.5	(0.3)	(1.0)	(0.2)	0.0
Expected value added [c]	1.0	1.0	1.0	1.0	1.0

(a) Investment returns are provided by AIMCo. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In the SIP&G, the Special Forces Pension board expects that the investments held by the Plan will return approximately 100 basis points, or 1.0%, above the policy benchmark return.

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2011	2010
Retirement benefits	$ 78,725	$ 75,715
Disability benefits	$ 349	$ 352
Termination benefits	4,168	2,496
Death benefits	1,032	853
	$ 84,274	$ 79,416

NOTE 11 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pooled investment funds.

Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan. Investment expenses as a percentage of average fair value of investment assets and per member are provided below:

	($ thousands) 2011	2010
Interest-bearing securities	$ 598	$ 494
Canadian equities	434	383
Foreign equities	1,861	1,916
Private equities	1,016	1,036
Real estate	456	354
Real return bonds	80	63
Infrastructure	518	555
Timberland	155	78
Total investment expenses	$ 5,118	$ 4,879
Average fair value of investments	$ 1,516,266	$ 1,416,617
Percent of investments at average fair value	0.34%	0.34%
Investment expenses per member	$ 794	$ 783

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2011	2010
General administration costs	$ 1,001	$ 1,107
Board costs	78	52
Actuarial fees	165	93
Audit fees	33	32
Other professional fees	229	161
	$ 1,506	$ 1,445
Member service expenses per member	$ 234	$ 232

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $6,624 (2010: $6,324) or $1,028 (2010: $1,016) per member and 0.43% (2010: 0.42%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2011	2010
The following amounts were paid:		
Remuneration		
Chair	$ 13,675	$ 6,443
Members	29,146	23,719
Travel, training and conference expenses		
Chair	5,985	2,480
Members	27,515	19,240

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the Act (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall on, the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. Effective January 1, 2011 there was an approved transfer of $300 from the Indexing Fund to the Plan Fund. Effective January 1, 2012, COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 16 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's 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 $1,567,109 at December 31, 2011 (2010: $1,418,465), comprising of $555,685 (2010: $547,082) Pre-1992 and $1,011,424 (2010: 871,383) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 6.72% of pensionable salary shared equally between employees and employers (3.36% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2011 (see Note 1b).

Effective January 1, 2011 awards of COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 21, 2000.

NOTE 17 COMPARATIVE FIGURES

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

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2011

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 8, 2012

Edmonton, Alberta

Statements of Financial Position

As at December 31

	($ thousands) 2011	2010
Net assets available for benefits		
Assets		
Portfolio investments (Note 3)	$ 18,324	$ 16,516
Refundable income tax (Note 1(f) and Note 5)	22,497	19,327
Contributions receivable		
Employer	21	23
Employee	21	22
Other receivables	2	-
Due from (due to) from Alberta Pensions Services Corportion	57	(36)
Due from SRP Reserve Fund (Note 6)	46,002	41,114
Total Assets	86,924	76,966
Liabilities		
Income tax payable	255	48
Other payables	13	-
Liability for investment purchases	-	50
Total Liabilities	268	98
Net assets available for benefits	86,656	76,868
Pension obligation and deficit		
Pension obligation (Note 7)	140,145	116,427
Deficit (Note 8)	(53,489)	(39,559)
Pension obligation and deficit	$ 86,656	$ 76,868

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended December 31

	($ thousands) 2011	2010
Increase in assets		
Contributions (Note 9)	$ 6,257	$ 5,971
Investment income (Note 10)	1,679	1,380
Increase in SRP Reserve Fund (Note 6)	4,888	6,842
	12,824	14,193
Decrease in assets		
Benefit payments (Note 11)	2,458	1,700
Investment expenses (Note 12)	94	62
Administrative expenses (Note 13)	484	525
	3,036	2,287
Increase in net assets	9,788	11,906
Net assets available for benefits at beginning of year	76,868	64,962
Net assets available for benefits at end of year	$ 86,656	$ 76,868

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31

		($ thousands) 2011	2010
Increase in pension obligation			
Interest accrued on opening pension obligation	5,425	$ 5,425	$ 4,836
Benefits earned	10,729	10,729	8,779
Net increase due to actuarial assumption changes (Note 7a)		10,022	5,150
		26,176	18,765
Decrease in pension obligation			
Benefits paid	2,458	2,458	1,700
Net experience gains (Note 7b)		-	5,116
		2,458	6,816
Net increase in pension obligation		23,718	11,949
Pension obligation at beginning of year		116,427	104,478
Pension obligation at end of year (Note 7)		$ 140,145	$ 116,427

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The Minister of Alberta Finance has overall responsibility for the operations of the Plan and is responsible for investments. Alberta Finance is management of the Plan. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the *maximum pensionable salary limit* under the *Income Tax Act.* The Plan is supplementary to the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 6) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2011 were 11.16% (2010: 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. As a result of this review, the contribution rates increased at January 1, 2011 to 11.16% of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

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

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan follow those of the MEPP.

d) GUARANTEE

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

e) SURPLUS PLAN ASSETS

The Province of Alberta has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Province of Alberta.

f) INCOME TAXES

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefit payments are made to Plan members and beneficiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3e) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 9) and benefit payments (Note 11).

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 in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

c) INCOME RECOGNITION

Investment income and expenses are recorded on the accrual basis. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value. Administrative expenses are recorded on an accrual basis.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

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

i) 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.

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

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

iv) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the benefit obligation in the year when actual results are known.

NOTE 3 INVESTMENTS

	($ thousands)			
	2011		2010	
	Fair Value	%	Fair Value	%
Interest bearing securities				
Cash and short-term securities [(a)]	$ 633	3.4	$ 647	3.9
Bonds [(b)]	14,491	79.1	13,070	79.1
Real return bonds [(c)]	3,200	17.5	2,799	17.0
Total Investment [(d) (e)]	$ 18,324	100.0	$ 16,516	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF). Terms to maturity and market yield at December 31, 2011 are reported in Note 4b.

b) The bond portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at December 31, 2011 are reported in Note 4b.

c) The inflation sensitive real return bond portfolio is primarily made up of bonds that are issued by the Government of Canada, and bear interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at December 31, 2011 are reported in Note 4b.

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

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

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	Level one	Level two	Level three	Total
Interest-bearing securities	$ -	$ 18,324	$ -	$ 18,324
2011 - Total Amount	$ -	$ 18,324	$ -	$ 18,324
- Percent	0%	100%	0%	100%
2010 - Total Amount	$ -	$ 16,516	$ -	$ 16,516
- Percent	0%	100%	0%	100%
Increase during the year	$ -	$ 1,808	$ -	$ 1,808

e) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage

NOTE 3 INVESTMENTS CONTINUED

exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash collateral and deposits in futures contracts margin accounts, totalled $59 or 0.3% of total investments (2010: $56 or 0.3% of total investments).

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

($ thousands)

	2011					2010	
	Maturity						
	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount [a]	Net Fair Value [b]	Notional Amount [a]	Net Fair Value [b]
	%						
Interest rate derivatives [c]	51	-	49	$ 7,019	$ 138	$ 2,941	$ 119
Foreign currency derivatives [d]	100	-	-	838	6	512	18
Credit risk derivatives [e]	15	21	64	6,086	(118)	7,920	(85)
Derivative related receivables, net					26		52
Deposits in futures margin accounts					34		4
Deposits as collateral for derivative contracts					(1)		-
Net derivative related investments					$ 59		$ 56

Net derivative related receivables of $26 are comprised of net receivables from counterparties of $174 and net payables to counterparties of $148. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

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

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

(c) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

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

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Advisory Committee. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Advisory Committee manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3e).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 33-45% fixed income instruments, 40-55% equities, and 7.5-19.5% alternative investments.

a) CREDIT RISK

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

The Plan's maximum credit risk in respective of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3e). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately $1.2 million (2010: $1.1 million).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	3%	39%	58%	4.0%
Real return bonds	7%	2%	91%	0.5%

c) LIQUIDITY RISK

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3e).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2011	2010
Refundable income tax at beginning of year	$ 19,327	$ 16,348
Tax on employees and employers contributions received	3,130	3,014
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	40	(35)
Refundable income tax at end of year	$ 22,497	$ 19,327

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the Minister of Alberta Finance. The employer contribution rate is 22.6% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the Minister of Alberta Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2011, the SRP Reserve Fund had net assets with fair value totalling $46,002 (2010: $41,114), comprising of $46,002 (2010: $41,114) in portfolio investments and $nil (2010: $nil) in receivables. The increase during the year of $4,888 (2010: $6,842) is attributed to contributions from employers of $4,647 (2010: $3,317) and investment gain of $241 (2010: $3,525).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2010 as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the pension obligation of $140,145 (2010: $116,427) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2011	2010
	%	
Discount rate on an after-tax basis	4.10	4.50
Inflation rate	2.25	2.25
Discount rate	5.50	6.00
Salary escalation rate *	3.50	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

* In addition to age specific merit and promotion increases.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2012. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2013.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2010: gains of $5,116) arose from differences between the actuarial assumptions used in the 2010 valuation and 2011 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

NOTE 7 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	9,257	1,191
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	23,346	10,410
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	29,085	4,093

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands)	
	2011	2010
Deficit at beginning of year	$ (39,559)	$ (39,516)
Net increase in pension obligation	23,718	11,949
Increase in net assets available for benefits	9,788	11,906
Deficit at end of year	$ (53,489)	$ (39,559)

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2011	2010
Employers	$ 3,130	$ 2,980
Employees	3,127	2,991
	$ 6,257	$ 5,971

NOTE 10 INVESTMENT INCOME

Investment income is comprised of income from investments in units of pooled funds which are created and managed by AIMCo.

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

	($ thousands)	
	2011	2010
Interest-bearing securities	$ 1,679	$ 1,380
	$ 1,679	**$ 1,380**

NOTE 11 BENEFIT PAYMENTS

	($ thousands) 2011	2010
Retirement benefits	$ 1,662	$ 1,253
Termination benefits	737	365
Death benefits	59	82
	$ 2,458	$ 1,700

NOTE 12 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses by asset class are provided below:

	($ thousands) 2011	2010
Interest-bearing securities	$ 94	$ 62
Total investment expenses	$ 94	$ 62
Average fair value of investments	$ 17,420	$ 15,534
Percent of investments at average fair value	0.54%	0.40%
Investment expenses per member	$ 53	$ 37

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $484 (2010: $525) were charged to the Plan on a cost recovery basis.

	($ thousands) 2011	2010
General administration costs	$ 469	$ 497
Actuarial fees	15	22
Other professional fees	-	6
	$ 484	$ 525
Member service expenses per member	$ 274	$ 312

NOTE 13 ADMINISTRATION EXPENSES CONTINUED

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the Minister of Alberta Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $578 (2010: $587) or $327 (2010: $348) per member and 1.42% (2010: 1.64%) of net assets under administration.

NOTE 15 CAPITAL

The Plan defines its capital as the funded status as described in Notes 1b, 1e, Note 6 and Note 8.

NOTE 16 COMPARATIVE FIGURES

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

NOTE 17 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

Performance Measures Methodology

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Performance Measures
(Methodology, Sources and Notes)

1.a Alberta's credit rating (blended credit rating for domestic debt)

METHODOLOGY

Credit rating is an independent credit rating agency's assessment of the future ability of an organization to repay its long term debt. The highest possible rating is AAA.

Alberta is rated by three agencies:

» Standard and Poor's (S&P) – AAA

» Moody's Investor Service (Moody's) – AAA

» Dominion Bond Rating Service (DBRS) – AAA

SOURCE

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

RATING COMPARISON TABLE

Year	Alberta	Ontario	B.C.	Canada
2011	AAA	AA-	AAA	AAA

1.b Sustainable operating spending growth (operating spending relative to population plus Consumer Price Index (CPI))

METHODOLOGY

Growth in operating expenses is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.

Population growth is calculated by taking the annual change in population at the mid-point of the fiscal year (October 1).

Inflation is the year over year growth in the average of the Alberta Consumer Price Index over the fiscal year (April to March).

SOURCE

Growth in operating expense, population and inflation are calculated by Alberta Finance.

2.a Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)

METHODOLOGY

The measure is calculated by dividing the additional revenue obtained through administrative effort by Tax and Revenue Administration's (TRA) operating budget.

SOURCE

Data comprises a summary of revenue obtained through the revision of returns and claims, the collection of overdue accounts and recoveries due to audit activity. Data is generated through existing ORACLE and IMAGIS system reports, and ad hoc reporting created for the purpose. Administrative costs are obtained through the Government of Alberta IMAGIS expense tracking system.

NOTES

Through a combination of audit activities, collection of overdue accounts, and the revision of returns and claims, TRA recovers tax revenues that otherwise may be lost. This measure is calculated by dividing the total additional revenue obtained because of these efforts by TRA's operating budget. A declining target reflects increased compliance.

3.a The Alberta Heritage Savings Trust Fund five-year annualized rate of return

METHODOLOGY

The performance measurement system employed by Alberta Investment Management Corporation (AIMCo) calculates a total return of the Heritage Fund.

CPI is a measure of price movements of baskets of selected goods and services between two different points in time. CPI is calculated by Statistics Canada.

A comparison is made between the annualized five year market value rate of return of the Heritage Fund and annualized five year CPI plus 4.5 per cent plus 1 per cent which equals 7.4 per cent.

SOURCE

The Heritage Fund return is calculated within the Sylvan product of the Financial Models Corporation (FMC) by the Valuation and Fund Accounting Group within AIMCo's Investment Administration division.

CPI is obtained from either the Bank of Canada web site or from Bloomberg.

FMC – Sylvan module:

Monthly data downloaded to Excel spreadsheet from FMC–Sylvan and annualized manually to check the accuracy and subsequently compared with the FMC–Sylvan annualized download.

NOTES

The measure was consolidated in 2011 to reflect both policy and active management. Prior years' numbers have been restated to be comparable.

5.a ATB Financial return on average assets

METHODOLOGY

ATB Financial's return is calculated by looking at their net income over their average total assets for the fiscal year ending March 31, 2012.

SOURCE

Net income – as per annual report

Average Total Assets – per internal reporting systems

5.b Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/ aggregating agencies for a comparable loan

METHODOLOGY

The Alberta Capital Finance Authority (ACFA) compares Alberta local authorities' indicative loan rates to the cost of borrowing by Ontario municipalities from the Ontario Strategic Infrastructure Financing Authority (OSIFA). ACFA's indicative loan rates are estimates of what the Authority would achieve under similar terms and circumstances to the actual rate used by OSIFA.

SOURCE

OSIFA municipal indicative lending rates as published on Infrastructure Ontario's website.

6.a Public satisfaction with the conduct of liquor business in Alberta

METHODOLOGY

Satisfaction is measured annually through an independently administered survey of adult Albertans (18 years of age or older living in Alberta).

To ensure a random and representative sample, 1,000 survey participants were drawn from the most recent residential phone listings (the last digit of each phone number was randomized to allow inclusion of new and unpublished listings).

Using the latest Statistics Canada population estimates, the number of interviews within each geographic area was made proportionate to the population. This included establishing survey quotas which were representative of the Alberta adult population by region, gender and age.

This sampling method provided a margin of error that is no greater than plus or minus 3.1 per cent at the 95 per cent confidence level.

Respondents are considered to be satisfied overall if they responded that they are very satisfied, or somewhat satisfied to the following question:

Now, thinking about the liquor business in Alberta, overall, how satisfied are you with the way the liquor business is conducted in Alberta. Would you say you are…

- *Very satisfied*
- *Somewhat satisfied*
- *Somewhat dissatisfied*
- *Very dissatisfied*
- *(Don't Know/Not Stated)*

SOURCE

Survey of Albertans – Final Report

6.b Public satisfaction with the conduct of legal gaming in Alberta

METHODOLOGY

Satisfaction is measured annually through an independently administered survey of adult Albertans (18 years of age or older living in Alberta).

To ensure a random and representative sample, 1,000 survey participants were drawn from the most recent residential phone listings (the last digit of each phone number was randomized to allow inclusion of new and unpublished listings).

Using the latest Statistics Canada population estimates, the number of interviews within each geographic area was made proportionate to the population. This included establishing survey quotas which were representative of the Alberta adult population by region, gender and age.

This sampling method provided a margin of error that is no greater than plus or minus 3.1 per cent at the 95 per cent confidence level.

Respondents are considered to be satisfied overall if they responded that they are very satisfied, or somewhat satisfied to the following question:

Now, thinking about the gaming entertainment products and activities that we have just mentioned, overall, how satisfied are you with the conduct of legal gaming in Alberta. Would you say you are…

- *Very satisfied*
- *Somewhat satisfied*
- *Somewhat dissatisfied*
- *Very dissatisfied*
- *(Don't Know/Not Stated)*

SOURCE

Survey of Albertans – Final Report