GOVERNMENT OF ALBERTA

Annual Report

Treasury Board and Finance

2020-2021

Treasury Board and Finance, Government of Alberta | Treasury Board and Finance 2020–2021 Annual Report

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Fiscal Planning and Transparency Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 20 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and a comparison of actual performance results to desired results set out in the government's strategic plan, previously published in one volume entitled *Measuring Up* report.

This annual report of the Ministry of Treasury Board and Finance contains the minister's accountability statement, the financial information 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 regulated funds, provincial agencies and Crown-controlled corporations for which the minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Fiscal Planning and Transparency Act*, as separate reports, to the extent that the ministry has anything to report; and**
- **financial information relating to trust funds.**

Each Ministry Annual Report should be considered along with the Government of Alberta Annual Report to provide a complete overview of government's commitment to openness, accountability and fiscal transparency.

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2021, was prepared under my direction in accordance with the *Fiscal Planning and Transparency Act* and the government's accounting policies. All of the government's policy decisions as at June 8, 2021 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

Honourable Travis Toews

President of Treasury Board and Minister of Finance

Message from the President of Treasury Board and Minister of Finance

The Ministry of Treasury Board and Finance is responsible for budget planning, financial management, economic analysis, human resources and communications leadership. The department also administers tax and revenue programs, and regulates Alberta's financial, insurance, pension, liquor, gaming and cannabis sectors.

The annual report provides the results of the department's revenue, spending, assets and liabilities for the 2020-21 fiscal year. The report contains the consolidated financial information of the department and a comparison of actual performance results to desired results as set out in the ministry business plan, which was published as part of the previous year's budget. The report also includes financial statements for the entities that make up the ministry and for which I am responsible.

Alberta faced unprecedented challenges during the 2020-21 fiscal year along with the rest of the world. The sustained volatility in the energy sector, the global economic recession and the impact of COVID-19 health restrictions required innovative, and difficult decision-making. Our response to the serious health and the economic challenges is reflected within the government's financial reporting.

As we continue to work together to get past the COVID-19 pandemic, we must also work together to get our economy back on track. We are entering a new era of economic opportunity and getting Albertans back to work is government's key priority.

We are investing strategically in projects that position Alberta for growth and that create immediate jobs. Doors are opening to new construction and diversification projects and we are building on our strengths of the most competitive tax regime in Canada and a young, skilled workforce. We are confident in the future of our traditional industries of agriculture, forestry and energy and look to optimize the potential for growth in tourism, culture, technology and innovation sectors. The recovery plan's combined incentives will bring investors back to our province.

As the minister responsible for our financial security, I am confident our recovery plan, which we will continue to implement in the coming months, will result in sustained economic recovery and ensure the high-quality services we have come to rely on in Alberta are sustainable for the future. Alberta's strong fundamentals, including the youngest population among the provinces, a highly skilled workforce and a competitive tax regime, position the province to once again power the national economy.

I remain committed to maintaining fiscal discipline to get the best value for hard-earned tax dollars, and look forward to reporting on the progress we have made implementing our recovery plan that gets Albertans back to work.

[Original signed by]

Honourable Travis Toews

President of Treasury Board and Minister of Finance

Jun 8, 2021

Management's Responsibility for Reporting

The Ministry of Treasury Board and Finance includes:

- Department of Treasury Board and Finance
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Foundation for Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund
- Alberta Capital Finance Authority*
- Alberta Insurance Council
- Alberta Gaming, Liquor and Cannabis Commission
- 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.

* Alberta Capital Finance Authority was dissolved on October 31, 2020. Final financial statements for this entity for the period April 1 to October 31, 2020 are included in this annual report.

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 accompanying ministry financial information and performance results for the ministry rests with the President of Treasury Board and Minister of Finance. Under the direction of the minister, I oversee the preparation of the ministry's annual report, which includes the financial information, performance results on all objectives and initiatives identified in the Ministry Business Plan, and performance results for all ministry-supported commitments that were included in the 2020-23 Government of Alberta Strategic Plan. The financial information and performance results, out of necessity, include amounts that are based on estimates and judgments. The financial information is prepared using the government's stated accounting policies, which are based on Canadian Public Sector Accounting Standards (PSAS). The performance measures are prepared in accordance with the following criteria:

- **Reliability** – Information used in applying performance measure methodologies agrees with the 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** – outcomes, performance measures and related targets match those included in the ministry's *Budget 2020*.

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 and the President of Treasury Board and Minister of Finance the information needed to fulfill their responsibilities; and
- facilitate preparation of ministry business plans and annual reports required under the *Fiscal Planning and Transparency Act*.

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

[Original signed by]

Athana Mentzelopoulos

Deputy Minister of Treasury Board and Finance

June 8, 2021

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Results Analysis

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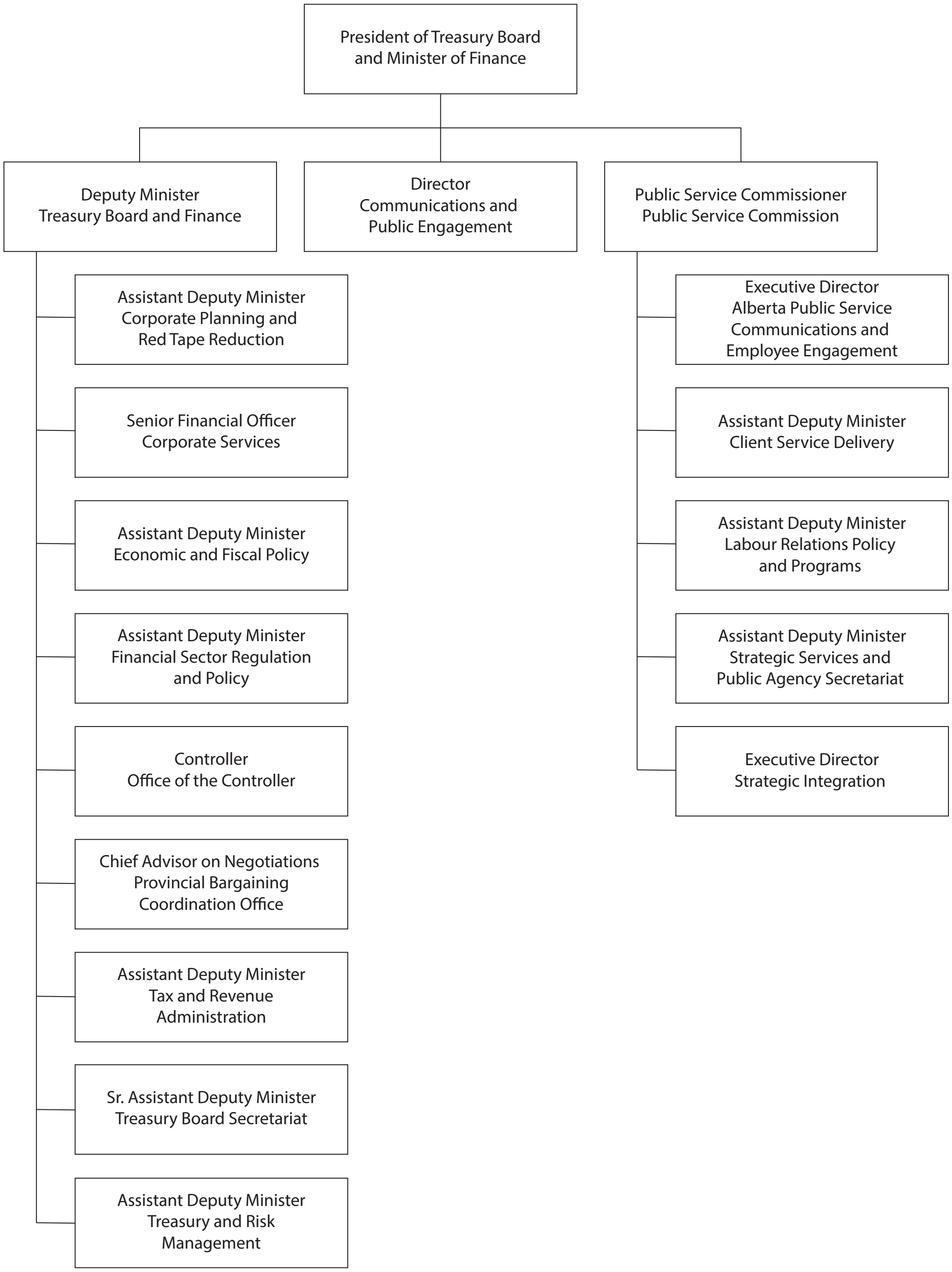
Ministry Overview

Organizational Structure



Ministry Mandate and Structure

The Ministry of Treasury Board and Finance (TBF) is responsible for budget planning, financial management and economic analysis, as well as the administration of tax and revenue programs. The ministry provides policy and regulatory oversight for Alberta's liquor, gaming, cannabis, financial, securities, insurance and pensions sectors. Through the Public Service Commission (PSC), TBF ensures Alberta has a professional and non-partisan public service that serves Albertans. The ministry is also responsible for providing government communications, public consultation and marketing services through Communications and Public Engagement (CPE).

The ministry is committed to maintaining fiscal discipline, controlling spending and working closely with ministries to deliver on the commitments the government has made to Albertans.

Operational Overview

Treasury Board and Finance

Corporate Planning and Red Tape Reduction

> Corporate Planning and Red Tape Reduction (CPRTR) leads initiatives to identify, reduce and eliminate red tape that causes regulatory and administrative burdens, and coordinates the government's work on implementing changes to better enable economic growth, innovation and competitiveness, and facilitate a strong and attractive investment climate in Alberta. The division's mission includes enabling an outcome-based approach to regulating industries and engaging with Albertans to achieve the Red Tape Reduction (RTR) targets, while ensuring consumer, environmental, health and safety protections, and fiscal accountability. CPRTR also leads the implementation of a robust business and strategic planning, reporting and enterprise risk management framework for all ministries and the Government of Alberta.

Corporate Services

> Corporate Services provides a range of internal financial, facilities and administrative services to TBF, CPE, and Executive Council. Corporate Services leads the development of the ministry's budget and provides financial advice and support related to planning and forecasting. It oversees the preparation and implementation of ministry financial reporting, financial compliance and accountability, contract policy and management, and financial processes and policies. These services support the delivery of programs and are essential to achieving government mandates pertaining to finance, staff safety and the general functioning of government.

Economic and Fiscal Policy

> Economic and Fiscal Policy is primarily responsible for analysis and advice to the government on fiscal and economic issues, including tax policy analysis and legislation, economic and demographic analysis, statistics, forecasting the economy, population, non-renewable resource and tax revenues, and federal transfers, as well as scenarios for the budget and quarterly fiscal updates. The division prepares budget material such as the tax plan, economic outlook, and federal-provincial chapters along with quarterly economic statements. The division is also responsible for federal-provincial fiscal relations, including major federal-provincial transfers, cross-ministry support on federal, provincial and municipal fiscal issues, cross-ministry statistical services as the provincial focal point for Statistics Canada, and for economic, revenue and fiscal analysis of policy and program initiatives.

Financial Sector Regulation and Policy

Financial Sector Regulation and Policy provides policy support and analysis for insurance, pensions (including the Canada Pension Plan), consumer protection, and alcohol, gaming and cannabis legislation. The Superintendent of Pensions, Superintendent of Insurance and Superintendent of Financial Institutions regulates and supervises registered pension plans, insurance companies, loan and trust corporations and financial institutions in Alberta. Working closely with external regulatory and administration entities including the Alberta Insurance Council, Automobile Insurance Rate Board, Alberta Gaming Liquor and Cannabis, Alberta Pensions Services Corporation, and Horse Racing Alberta, the division continually reviews and updates legislation and policy as required in response to trends in the financial sector. The division is also responsible for the promotion of a fair and competitive environment for financial institutions in Alberta and minimizing the risk of loss to consumers.

Office of the Controller

The Office of the Controller is responsible for government accounting policies and financial reporting, financial management and control policies, risk management (financial and audit risks) and financial business process management. The division is a leader in sponsoring, supporting and facilitating initiatives with outcomes focused on effectiveness, efficiency, best practice and continual improvement by the government financial community. Corporate Internal Audit Services (CIAS) reports administratively to the Controller and performs internal audits across government. CIAS helps ministries accomplish their objectives by bringing a systematic, disciplined approach to evaluating and then recommending improvements to risk management, control and governance processes.

Provincial Bargaining Coordination Office

The Provincial Bargaining Coordination Office (PBCO) plays a lead role in supporting government's interests, as employer and funder, with respect to public-sector labour relations and related negotiations. PBCO prepares bargaining mandates and supports cross-sectorial coordination in bargaining by providing training, strategic advice, negotiations support, compensation research, and leadership to government and its funded employer partners on public sector labour relations matters. While collaborating with Alberta Education and key education stakeholders, PBCO also administers the Teacher Employers' Bargaining Association with respect to teacher collective bargaining and contract administration.

Tax and Revenue Administration

Tax and Revenue Administration (TRA) administers tax, revenue, grants and other programs under multiple Acts, including the *Alberta Corporate Tax Act*, the *Freehold Mineral Rights Tax Act*, the *Fuel Tax Act*, the *Tobacco Tax Act*, and the *Tourism Levy Act*. The focus of the division's work is to ensure a fair, efficient and effective provincial tax and revenue administration system. The division also contributes to the development of Alberta tax and revenue policy.

In 2020-21, the Freehold Mineral Tax program and the Compliance and Assurance team from the Ministry of Energy joined TRA. As part of collections streamlining happening across government to enhance services and create uniform collections procedures, the Crown Debt Collections team from Service Alberta and the Employment Standards' Collection team from the Ministry of Labour and Immigration also joined TRA during 2020-21.

Treasury Board Secretariat (Formerly Budget Development and Reporting)

Treasury Board Secretariat (TBS) provides timely, relevant and accurate budget and capital planning analysis, advice and recommendations to decision-makers including the Premier, Cabinet, Minister, Treasury Board Committee and other bodies. TBS provides guidance to ministries on budgets, capital and fiscal planning, and is accountable for the government's budgeting (annual budget, quarterly fiscal and mid-year updates) and key financial results included in the Government of Alberta Annual Report and the government's infrastructure report. As the secretariat to the Treasury Board Committee, TBS serves as the primary contact for coordinating program budgeting, capital, and fiscal planning processes across government.

Treasury and Risk Management

Treasury and Risk Management (TRM) is responsible for managing the government's cash resources, borrowing programs, financial risk management, liquidity, banking activities and the related accounting and financial reporting functions. The division provides investment policy advice, accounting and portfolio planning, as well as evaluates investments of the General Revenue Fund and government endowment funds, including the Alberta Heritage Savings Trust Fund. TRM, on behalf of the Province, is also responsible for administering the program of lending to local authorities for capital projects. TRM provides policy support and analysis for financial institutions and capital markets. Effective regulation of financial institutions and securities help ensure that markets are efficient and fair, while protecting consumers and investors, respectively. The division also assists in the identification, measurement, control and financing of the risks of accidental loss to government.

Public Service Commission

Office of the Public Service Commissioner

The Office of the Public Service Commissioner is led by the Public Service Commissioner, and oversees the day-to-day operations of the Public Service Commission. It administers Alberta's Public Service Act and the Code of Conduct and Ethics for the Public Service of Alberta; represents the Government of Alberta as the Employer in collective bargaining and other labour relations matters; and provides advice to the President of Treasury Board and Minister of Finance, the Deputy Minister of Executive Council, Deputy Ministers, and Senior Officials on Human Resources (HR) and public agency issues.

Alberta Public Service Communications and Employee Engagement

Alberta Public Service (APS) Communications and Employee Engagement leads internal communications, employee engagement, and diversity and inclusion initiatives for the APS and leads external communications for the Public Service Commission.

It supports the President of Treasury Board and Minister of Finance, Public Service Commissioner, Deputy Minister of Executive Council, and works closely with Communications and Public Engagement to ensure communications in the APS are coordinated, effective, and aligned.

Client Service Delivery

The Client Service Delivery (CSD) Division provides HR services and supports workforce planning and organizational effectiveness for all Government of Alberta (GoA) departments through a consolidated portfolio model. CSD is comprised of portfolio teams of dedicated HR professionals that provide integrated service delivery to departments, including employee relations (ER) and occupational health and safety (OHS). A service centre delivers talent acquisition, classification, and compensation services across APS, and an Executive Search unit supports executive recruitment for the APS as well as board member recruitment for Alberta agencies, boards and commissions.

Labour Relations Policy and Programs

Labour Relations Policy and Programs Division (LRPP) is responsible for representing the employer in collective bargaining and essential services negotiations, in addition to leading the implementation of the collective agreement and supporting legislation and policies. LRPP is also responsible for managing the investigative process for formal complaints and alleged incidents of employee misconduct occurring across the GoA, representing the GoA (as employer) before grievance arbitration boards and other labour and employment administrative tribunals as required, and developing programs, policies and tools to create a healthy and safe work environment. LRPP is also responsible for policy and program development and legislative updates to the GoA's Wellness Health and Safety Programs including Occupational Health and Safety (OHS), Disability Management and the GoA's Respectful Workplace Policy. LRPP Wellness Health and Safety includes the provision of OHS and Respect in the Workplace training for GoA employees and the development of a Psychological Health and Safety approach.

Strategic Services and Public Agency Secretariat

Strategic Services and Public Agency Secretariat (SSPAS) supports HR policy development and workforce planning by providing workforce learning and analytics services internally within the PSC and externally to department clients. In addition, SSPAS offers oversight of Alberta Public Service pension and benefits. The Public Agency Secretariat (PAS) collaborates with departments and agencies, boards and commissions (ABCs) to promote best practices in board governance and leads the centralized board member recruitment process for the Government of Alberta.

Strategic Integration

The Strategic Integration Branch (SIB) is an independent multidisciplinary strategic advisory office that services enterprise wide supports and is designed to facilitate transformation initiatives, business reviews and option framing, together with business program implementation. The SIB works directly with executive sponsors, business process owners and staff to identify opportunities and challenges and provide client-oriented solutions to support the achievement of intended business outcomes and process efficiencies.

Communications and Public Engagement

Communications and Public Engagement is a cross-government department that provides communications, public relations and marketing services to government ministries and to the Government of Alberta as a whole.

Key Highlights in the Past Year

Alberta faced unprecedented challenges in 2020-21. The sustained volatility in the energy sector, the global economic recession and the necessary COVID-19 health restrictions required innovative and difficult decision making by government. TBF strived to support the government, leveraging its strategic, economic and financial expertise, to make sound decisions, develop policies and address the challenges. The 2020-21 highlights included:

COVID-19 response and Alberta's Recovery Plan

TBF proved highly adaptable and responsive to the abrupt shift in economic conditions. The ministry supported government's substantial and unprecedented funding for COVID-19 related expenditures in 2020-21, which included treatment, testing and contact tracing, supports for self-isolation and funding for personal protective equipment. Overall, more than $5.8 billion was provided to address the impact of the pandemic on Alberta and support economic recovery. A further $3.1 billion is budgeted in 2021-22 for economic recovery and sector strategies and an additional $1.25 billion for COVID-19 contingency, on top of already historically high funding, to ensure the health care system and other crucial areas will have access to funding if required.

- ► To inform government's COVID-19 pandemic response, TBF developed analysis and provided advice on the impact of the collapse in oil prices and necessary public health measures on Alberta's economy and revenue sources. These scenarios helped ensure that policy decisions were based on sound economic data and analysis.
- ► As part of Alberta's Recovery Plan, TBF introduced the *Tax Statutes (Creating Jobs and Driving Innovation) Amendment Act*, which accelerated the reduction in the general corporate income tax rate from 12 per cent to eight per cent as of July 1, 2020, a year and a half ahead of schedule. Research from the School of Public Policy, University of Calgary, indicated that the tax cut will support the creation of over 55,000 new jobs.
- ► TBF also introduced the Innovation Employment Grant (IEG), which encourages economic growth by supporting small and medium-sized businesses that invest in research and development with a grant worth up to 20 per cent of qualifying expenditures. This grant program complements the Job Creation Tax Cut by focusing on small and medium-sized businesses in the early stages of operation, when they might not yet be profitable.
- ► In collaboration with the Ministry of Children's Services, the Alberta Child Benefit and the Alberta Family Employment Tax Credit were consolidated into a single program, the Alberta Child and Family Benefit (ACFB), as of July 1, 2020. The ACFB reduces the administrative costs of running two separate programs, allowing government to focus dollars more effectively on families with lower incomes, with many families receiving higher benefits than they did under the previous programs. For more information, see the Ministry of Children's Services Annual Report.
- ► In an effort to offset some of the financial challenges Albertans and our job creators were facing as a result of the COVID-19 pandemic and the necessary health restrictions, government recognized that it was imperative to keep money in the pockets of Albertans. To that end, TBF supported government's deferral of education property tax payments, corporate income tax installments, and final balance payments due between March 18 and September 30, 2020. The corporate income tax deferral freed up an estimated $1.5 billion, while the education property tax freeze and deferral freed up $545 million for Albertans and Alberta businesses.

- ► Government also allowed hotel and other lodging providers to keep tourism levy revenue they collected between March 1, 2020 and March 31, 2021 through a tourism levy abatement, freeing up approximately $36 million in additional cash flow for the sector to continue to employ staff and maintain operations.
- ► Government responded quickly and decisively to introduce flexibility for pension plan administrators in response to the COVID-19 pandemic and economic conditions. Examples of relief included an extension of deadlines applicable to certain regulatory filings and member statements, extension of funded deficiency amortization periods and contribution remittance deadlines, flexibility in respect to witness signatures and, in some cases (subject to robust regulatory approval and oversight), temporary relaxation of pension plan funding requirements.

Reducing unnecessary red tape

Government of Alberta Red Tape Reduction

Government is committed to reducing red tape to make life easier for hard-working Albertans and Alberta businesses. Reducing red tape means eliminating excessive regulatory and administrative requirements, and unnecessary processes, that impede economic growth, innovation and job creation.

TBF leads the whole-of-government effort to identify and eliminate red tape, and reduce regulatory requirements by one-third by 2023. TBF's leadership ensures a focused and consistent approach across government to reducing unnecessary burden imposed on job creators as Alberta enters economic recovery.

- ► As of March 31, 2021, the GoA has cumulatively reduced 15.7 per cent from its baseline count of regulatory requirements, which exceeded the ambitious 12 per cent reduction target set for 2020-21.
- ► Throughout 2020-21, TBF supported the work of nine red tape reduction Industry Panels focused on key economic sectors including: oil and gas; chemical manufacturing; forestry; tourism and hospitality; agriculture; non-profit; construction; small business; and industrial manufacturing. The panels, which include leaders from each sector, have helped government identify pressure points and provided recommendations for eliminating regulatory and cost barriers for job creators. To date, these panels have provided government with hundreds of recommendations, of which 200 have been completed in just under two years. Government is on track to complete 90 more this year.

Treasury Board and Finance Red Tape Reduction

In addition to government-wide leadership on RTR, TBF has also undertaken a comprehensive review to reduce red tape within the ministry. Since 2019, TBF has eliminated 19.5 per cent of its regulatory requirements. Much of the Ministry's success is supported by reductions from Alberta Gaming, Liquor and Cannabis (AGLC), which itself has achieved an impressive cumulative reduction of over 25 per cent since 2019.

- ► In 2020-21, TBF and AGLC conducted a joint review of the *Gaming, Liquor and Cannabis Act* (GLCA) and Gaming, Liquor and Cannabis Regulation (GLCR) to reduce red tape, introduce new opportunities for businesses, and keep legislation and regulation current. As a result of this review, and in response to the COVID-19 pandemic, AGLC expanded opportunities for liquor licensees to generate additional revenue while providing customers with greater choice. Initiatives included:
  - permitting bars and restaurants to sell liquor with delivery and take out orders;
  - enabling restaurants and bars to sell the same mixed drinks available on their in-house menus for delivery and consumption off-premises;

- providing additional channels for liquor product promotion and revenue generation through off-premises virtual liquor tasting events; and
- supporting additional promotional activities for liquor manufacturers and agencies by allowing complimentary sealed liquor samples for consumption at home.

► The AGLC was awarded the Golden Scissors Award by the Canadian Federation of Independent Business (CFIB) for reducing regulatory restrictions on alcohol sales in order to support Alberta businesses during the pandemic.

► In order to reduce the time and money Albertans typically spend on mailing paper copies of completed tax forms, TBF began recognizing electronic signatures on all prescribed tax forms. This not only allows for more efficient interaction with government, but reduces the need for taxpayers and tax preparers to meet in person.

► TBF also introduced the *Financial Statutes Amendment Act*, 2020, which updated seven pieces of legislation to modernize and improve Alberta's financial services sector, and ensure Alberta remains aligned with other Canadian jurisdictions. These legislative changes eliminated redundant and unnecessary requirements, making it easier for financial institutions to raise capital and provide more services while saving them time and money. Other changes improved the oversight of Alberta's financial services sector by formalizing the Office of the Alberta Superintendent of Financial Institutions in legislation to oversee ATB Financial, ensuring the safety and soundness of Alberta's financial institutions.

Controlling government spending

TBF maintains fiscal discipline and controls spending with a focus on government integrity, financial stewardship and the effective use of public assets, while supporting government priorities and programs that are important to Albertans.

► Through *Budget 2021*, TBF developed three fiscal anchors to set the future direction of government's fiscal policies and increase investor confidence in the province. These include keeping Alberta's net debt to Gross Domestic Product (GDP) ratio under 30 per cent, bringing per capita spending in-line with comparator provinces and, following the pandemic, re-establishing a commitment to balance the budget.

► Alberta's government is committed to the continuous review of government programs and services to eliminate waste, duplication and unnecessary spending, aiming to make public services more accountable, efficient and effective. TBF worked with a number of other ministries to support government initiatives in this area, including:

- entering into a 90:10 cost-sharing arrangement with local governments and private-sector applicants to share the financial risk and liability of disaster expenses. For additional details, see the Ministry of Municipal Affairs Annual Report.
- implementing a new Funding and Assurance Model in September 2020 to reduce the overall number of grants, ensuring funds for classrooms are maximized through a targeted grant for system administration, instead of a percentage of overall funding. For additional details, see the Ministry of Education Annual Report.
- modernizing Alberta's courtrooms through digital innovations to reduce government spending through "Justice Digital", which will increase the efficiency of Alberta's justice system and reduce government operating costs by as much as $65 million in 2021-22. For additional details, see the Ministry of Justice and Solicitor General Annual Report.

Tax administration and government finance

TBF oversees a fair, efficient and effective provincial tax and revenue administration system, and is responsible for sustaining financial resources through effective borrowing programs. In 2020-21, TBF:

- processed more than 336,000 corporate and commodity returns and approximately 8,100 benefit claims;
- recorded $5.6 billion from several tax and revenue programs administered by TBF, including corporate income tax, fuel tax, tobacco tax, insurance tax, and the tourism levy. The corporate tax amount was lower than in 2019-20, as were the tobacco tax and fuel tax, while the insurance tax was higher in 2020-21;
- continued to promote compliance with Alberta's mineral resource revenue programs and corporate and commodity tax programs with the recovery of more than $188 million through audit and compliance activities;
- continued to deliver on its commitment to increased use of electronic access to services to improve the efficiency and effectiveness of government's tax administration. As of March 31, 2021, tax returns submitted electronically included:
  - 94 per cent of all corporate income tax returns;
  - 80 per cent of tourism levy returns;
  - 89 per cent of International Fuel Tax Agreement returns;
  - 73 per cent of health cost recovery reports;
  - 67 per cent of insurance tax returns;
  - 98 per cent of fuel tax returns and claims;
  - 100 per cent of propane retailer claims;
  - 97 per cent of tobacco tax returns; and
  - 100 per cent of emergency 911 levy returns.
- issued over 100 cheques with a total value of $1.1 million, through the unclaimed property registry. As of March 31, 2021, there were approximately 294,190 items in the unclaimed property repository with an estimated value of $108 million; and
- assisted the Ministry of Energy in reviewing over 20,000 applications from stakeholders applying for a grant to clean up old pipelines, oil and gas wells and sites under the Site Rehabilitation Program. This assistance helped the Ministry of Energy with scaling its program in response to the number of applications and efficiently redeployed staff from TBF's collections and filing area to an emerging priority.

TBF continued to manage government's borrowing program to provide alternative financing to support public services in 2020-21, including:

- completing $26.4 billion financing in term debt, including amounts for refinancing and for lending to provincial corporations; and
- issuing government's first ever 40-year and 50-year bonds, which allowed the province to take advantage of low-cost and stable funding to meet ongoing financial requirements.

Overseeing Alberta's gaming, liquor, cannabis, insurance, pension and financial sectors

► TBF implemented emergency orders under the *Public Health Act* and supported the introduction of legislation ensuring the health and safety of Alberta financial institutions during the COVID-19 pandemic, and strengthening their ability to provide funding for Albertans. This includes providing access to the Bank of Canada's Standing Term Liquidity Facility for Alberta credit unions and ATB Financial.

► In December 2019, government appointed the Automobile Insurance Advisory Committee (AIAC), with a mandate to explore options for reforms to Alberta's automobile insurance system. AIAC released a report in fall 2020, featuring a number of recommendations that resulted in amendments to the *Insurance Act* (and associated regulations) to help stabilize the cost of automobile insurance in Alberta in the short to medium-term, enhance the care and benefits available to Albertans injured in traffic collisions, and reduce red tape while encouraging innovation, modernization, competition, and consumer choice in the province. Specifically, these amendments:

- expanded the definition of "minor injury" to include additional injuries under the Minor Injury Regulation which was revised to help control claim costs, leading to rate stabilization or, potentially, rate reductions;
- limited the number of experts who can provide evidence on the issue on motor vehicle injury damages, which is expected to help control claim costs, leading to rate stabilization or, possibly, rate reductions;
- enhanced the care and treatment available to injured Albertans to include dentists, psychologists, and occupational therapists under the Diagnostic Treatment Protocols Regulation and Automobile Accident Insurance Benefits Regulation and allow up to $1,000 in treatment from any combination of these health professionals;
- expanded the mandate of the Automobile Insurance Rate Board (AIRB) to give the AIRB full authority for all auto insurance issues, allowing industry to better adapt to a changing marketplace, while dealing with less regulatory burden in creating and adopting innovation and modernization initiatives;
- provided the AIRB with full authority over telematics programs, such as usage based insurance[1], recognizing that Albertans are using their vehicles in different ways, and that traditional rate setting systems may not work in today's marketplace. All of which facilitated innovation, providing increased clarity to drivers, and allowed for insurance rate decreases for some Albertans; and
- enabled Direct Compensation for Property Damage, which allows insured drivers to be compensated by their own insurer for property damage resulting from an automobile collision caused by another party. Working with their own insurer allows drivers involved in automobile collisions to complete the claims process more efficiently and get appropriate compensation quickly.

► In response to recommendations of the Fair Deal Panel, TBF is developing a detailed and comprehensive analysis of the costs, benefits and structure of a potential Alberta Pension Plan. This analysis will include actuarial, economic, legal, and technical information regarding the establishment and ongoing operation of an Alberta Pension Plan.

► AGLC launched PlayAlberta.ca, a regulated online gambling website available to Albertans over the age of 18 and physically located within the province's borders. PlayAblerta.ca integrates AGLC's best-in-class responsible gambling program, GameSense, promoting healthy gambling behaviour with access to tools and resources. Net income generated through PlayAlberta.ca is directed into the province's General Revenue Fund, which supports programs and services that Albertans rely on every day.

Note: 1. Usage-Based Insurance (UBI) is a type of auto insurance that tracks driving behaviour by devices installed in a vehicle or a smartphone. Also known as telematics, this process uses wireless devices to transmit driving data (e.g., speed, distance traveled, time of day traveled) in real time back to the insurer and could result in lower insurance rates.

Provincial Bargaining Coordination Office

- The PBCO provides public sector employers with mandate parameters to guide collective bargaining so these employers can successfully engage in, and conclude, their negotiations. These parameters help ensure a consistent, common sense approach to public sector bargaining. Public sector compensation makes up more than half of the province's expenses, which is why government has committed to ensuring these costs are fair and result in the highest level of services for Albertans.
- In December 2019, the government implemented the *Public Sector Employers Act*. The act created a centralized labour relations model that enhances government's ability to deliver on its fiscal priorities and improves efficiencies. The Act provides the minister with the authority to provide bargaining directives to public sector employers who are required to bargain within the parameters established by government.
- While progress at the various bargaining tables has been delayed due to the sustained focus on the COVID-19 response, PBCO continues to work with and support public sector employers as they engage in their collective bargaining processes.

Discussion and Analysis of Results

The Ministry of Treasury Board and Finance is committed to the ongoing review of programs and services to ensure that the best possible outcomes are being achieved for Albertans. As part of this ongoing review, the ministry is committed to making life easier for hard-working Albertans and Alberta's job creators by reducing regulatory requirements by one-third by 2023, and eliminating administrative burden through more efficient processes. This work will improve service delivery for Albertans; foster economic growth, innovation and competitiveness; create a strong and attractive investment climate; and make Alberta one of the freest and fastest moving economies in North America.

Outcome One: A strong and resilient financial foundation that supports sustainable government services and demonstrates excellence in accountability and transparency

Actions that Support the Priorities of the Government of Alberta Strategic Plan

Key Priority 1:

Supporting job creation

Objective 3:

Reducing Red Tape

- The government cut red tape by eliminating 15.7 per cent of its regulatory requirements, exceeding the cumulative 12 per cent target set for 2020-21.
- TBF has reduced 19.5 per cent of its own regulatory requirements.
- AGLC has reduced more than 25 per cent of it regulatory requirements through a systemic review of the *Gaming Liquor and Cannabis Act*; Gaming, Liquor and Cannabis Regulation; and all policy handbooks.
- In 2020-21, AGLC made a number of policy changes that enabled bars and restaurants to sell liquor and mixed drinks with takeout and delivery orders, allowing them to generate additional revenues that kept many of them in business during the COVID-19 pandemic.

2020-21 Objective: Lead and implement changes to address the regulatory requirements that cause red-tape burden, in order to better enable economic growth, innovation and competitiveness and facilitate a strong investment climate in Alberta while maintaining consumer, environmental, health and safety protections and fiscal accountability

TBF leads the government's red tape reduction initiative, supporting the commitment to reduce regulatory requirements by one-third by 2023. TBF's leadership across government ensures a focused and consistent approach to reducing red tape to meet government RTR target, while developing best practices to change the way government develops policy. As of March 31, 2021, government eliminated 15.7 per cent of its regulatory requirements, surpassing the 12 per cent target set for 2020-21.

The Government of Alberta has successfully completed over 400 red tape reduction initiatives since the beginning of its mandate, many based on recommendations from Albertans and industry. Sixty-nine of these initiaitves were highlighted in the first Annual Report on Red Tape Reduction tabled in the Alberta Legislature on November 16, 2020, meeting government's legislated commitment to report regularly on its progress in reducing red tape. These initiatives demonstrated government's success in driving economic growth and digital transformation, while reducing costs and saving time for Albertans and Alberta businesses. Together, these efforts saved Albertans and job creators more than $476 million. The Annual Report on Red Tape Reduction included actions taken by government to simplify processes and accelerate supports for businesses during the COVID-19 pandemic. The second annual report will be released in fall 2021.

In collaboration with other ministries, TBF developed two Red Tape Reduction Implementation Acts that collectively amended or repealed 22 pieces of legislation, resulting in a reduction of over 700 regulatory requirements, and a further reduction of over 1,200 requirements through consequential amendments to regulations and polices.

In its annual Report Card, CFIB awarded Alberta an "A" for its success in reducing red tape, recognizing Alberta as the most improved province in Canada and number two in the country.

Performance Indicator: CFIB Red Tape rating

The CFIB has published its annual Red Tape Report Card every year since 2011, assigning every provincial government, and the federal government, a grade between F and A+ for its achievements in RTR. In 2020-21, Alberta received an "A", its highest rating ever.

	2016-17	2017-18	2018-19	2019-20	2020-21
Alberta rating	F	F	F	B-	A

Performance Measure: One-third reduction of regulatory requirements in Government of Alberta statutes, regulations, policies, guidelines, and forms, with the exception of those that ensure health, safety and the soundness financial institutions and markets

Performance Measure	Target 2020-21	Actual 2020-21
One-third reduction of regulatory requirements in Government of Alberta statutes, regulations, policies, guidelines, and forms, with the exception of those that ensure health, safety and the soundness financial institutions and markets	12.0%	15.7%

Explanation of Variance
Exceeded the target.

Prior Year's Results
5.0% 2019-20

Trend
Led by TBF, the government has now reduced nearly one half of the regulatory reduction target, and is on track to achieving its objective of reducing regulatory requirements by 33 per cent by 2023.

Treasury Board and Finance Red Tape Reduction Initiatives

In addition to government-wide leadership on RTR, TBF has also undertaken a comprehensive review to reduce red tape within the ministry. Since 2019, TBF has cut red tape by eliminating 19.5 per cent of its regulatory requirements, exceeding the ambitious 12 per cent target set for 2020-21.

Many of these reductions are a result of ongoing, innovative changes made by the AGLC that support government's commitment to economic recovery and job creation, and include:

- Amending the Gaming Policy as requested by players to allow for new variations of progressive jackpots;
- Updating the Liquor Agency Handbook to make it easier to do business by removing minimum liquor store size requirements in Calgary and Edmonton, restrictions regarding gift baskets, and the requirement for mandated store names and signs, while expanding the types of trade shows available for liquor store's participation;
- Consolidating all existing raffle policies into a single handbook. This makes compliance easier for over 13,000 licensees who will no longer have to review multiple handbooks to ensure they are following the correct policy;
- Amending the Gaming Policy to allow charities to raise funds more easily through online channels and create administrative efficiencies to maximize charitable proceeds. This has resulted in some of the highest raffle sales ever in Alberta history, generating more revenue than ever for Alberta charities; and
- Enabling over 8,500 liquor licensees to have more opportunities to choose how they wish to make liquor payments using listed third-party payment processors.

Quick Facts

TBF publishes a variety of online economic publications throughout the year, including:

- Economic Review (weekly)
- Alberta Economy – Indicators at a Glance (weekly)
- Labour Market Notes (monthly)
- Economic Trends (occasionally)
- Demographic Statistics (quarterly)
- Demographic Projections (annually)
- Alberta Activity Index (monthly), to provide a timely indicator of provincial economic activity.

In addition, TBF's Tax and Revenue Administration division collaborated with Indigenous Services Canada and the Ministry of Indigenous Relations on a plan to eliminate the Alberta Indian Tax Exemption (AITE) card, which provides tax exemptions for eligible purchases of tobacco and fuel on reserve. Eliminating the AITE card and transitioning to the federal Certificate of Indian Status card removes the duplication of having to apply for, and maintain, both a federal and provincial card. The AITE card is expected to be eliminated in the 2021-22 fiscal year.

2020-21 Objective: Monitor the fairness, competitiveness, economic efficiency, and revenue stability of Alberta's tax system, and provide tax policy advice and administrative support to the government

TBF continued to monitor Alberta's tax system and provide information and advice to government on issues with respect to tax developments and the impact on Albertans and Alberta businesses. Advice and recommendations provided by TBF helped government develop policies to provide support during COVID-19 pandemic and to better position the province for recovery, with increased investment and more jobs for Albertans. During the year, TBF:

- provided timely tax policy advice to support Alberta during the COVID-19 pandemic and drive economic recovery, through tax deferrals, accelerating the Job Creation Tax Cut, a new Innovation Employment Grant, and the tourism levy abatement;
- continued to provide regular economic and revenue forecasts, analysis and advice to senior officials and Treasury Board Committee in support of *Budget 2020*;
- included detailed economic and revenue projections in the mid-year update and in *Budget 2020*, providing insight into the province's financial foundation. Multiple forecast scenarios were also developed during the year due to the uncertainty surrounding the pandemic;
- provided regular updates on royalty payments, commodity taxes, corporate income tax receipts and personal income tax assessments;
- held economic forecast consultations in the fall of 2020 with private-sector economists to inform the government's economic forecasts;
- highlighted the province's contributions and importance to the Canadian economy through presentations to various internal and external stakeholders about Alberta's economy and fiscal framework;
- provided analytical support on economic and revenue impacts, and various key projects and initiatives in different ministries, as well as economic analysis and modelling to other ministries; and
- TBF's Office of Statistics and Information produced several key information and analytical tools to allow government to understand the broad economic and fiscal implications of policy decisions. These included demographic forecasts and scenarios, analysis of linked program data for multiple ministries, economic impact analysis, and the development of a model to estimate populations for all Alberta municipalities annually using administrative data sources.

Actions that Support the Priorities of the Government of Alberta Strategic Plan

Key Priority 1:

Supporting job creation

Objective 1:

Changing the tax structure to stimulate growth and attract investment.
In 2020-21, TBF:

- Accelerated the Job Creation Tax Cut;
- Introduced the new Innovation Employment Grant (IEG);
- Deferred corporate income tax payments; and
- Implemented the tourism levy abatement.

Performance Measure: Value of pursuable Corporate Income Tax debt (tax debt not under dispute) as a percentage of total Corporate Income Tax revenue

Performance Measure	Target 2020-21	Actual 2020-21
Value of pursuable Corporate Income Tax debt (tax debt not under dispute) as a percentage of total Corporate Income Tax revenue	≤7.0%	10.2%

Explanation of Variance
Corporate income tax revenue declined due to the significant impact of COVID-19 and a challenging economic environment. Collection processes were also adapted to account for the financial challenges many Alberta businesses faced; resulting in an increase of pursuable tax debt.

Prior Year's Results			
N/A	N/A	6.0%	6.8%
2016-17	2017-18	2018-19	2019-20

Trend
The economic impacts of the COVID pandemic had a direct impact on the 2020-21 results. The percentage can fluctuate from year-to-year, but over the long run it is expected to be on target.

Performance Measure: Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)

Performance Measure	Target 2020-21	Actual 2020-21
Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)[2]	9.0:1	8.0:1

Explanation of Variance
The ratios for 2019-20 and 2018-19 exceeded the target of 9.0:1. This was due to significant interest and penalty recoveries made by applying reassessments in Alberta similar to those used by the Canada Revenue Agency at the federal level.

Prior Year's Results			
9.1:1	10.0:1	15.1:1	11.7:1
2016-17	2017-18	2018-19	2019-20

Trend
The ratio can fluctuate from year-to-year, but over the long run it is expected to be +/- 1 from the established target (9:1). The average over the last 4 years is currently 11:1.

Note: 2. The measure is a ratio of amounts added to net tax revenue to the costs of administration.

2020-21 Objective: Lead government's budgeting and financial planning, including the annual spending review to find savings and ensure that initiatives are aligned with government priorities

TBF led the government's budgeting and financial planning by providing timely, reliable and relevant fiscal advice and recommendations based on Government's overall fiscal situation.

During 2020-21, TBF worked with ministries, Treasury Board Committee and Cabinet to ensure limited resources were allocated to the highest priorities and funding was used effectively to satisfy the essential needs of the public. With COVID-19 response plans in place, TBF focused on:

- corporate income tax deferral;
- waiving interest and deferring payments on student loans;
- mortgage and loan deferrals through ATB Financial;
- freezing education property tax rates and deferring payments; and
- deferring utility payments.

Quick Facts

TBF prepares various public disclosures, all within legislated deadlines, in support of government's commitment to excellence in accountability and transparency

- General Revenue Fund (Blue Book) – shows who is doing business with government and payments made for supplies or services purchased by departments using the General Revenue Fund;
- Grant Disclosure - provides information on grant payments made by departments to support programs and initiatives throughout the province.
- Selected Payments to MLAs – includes payments to MLAs such as remuneration, benefits, allowances, travel expenses, pension payments to former MLAs;
- The Government of Alberta Consolidated Financial Statements – a public record of the dollars spent and the results achieved for the fiscal year. TBF facilitated the preparation of financial statements in accordance with Canadian Public Sector Accounting Standards. It was one of the major contributions of the ministry in achieving transparency and accountability in reporting on government's performance.

TBF played a key role in developing Alberta's Recovery Plan by providing support on economic impact and policy analysis and the development of sector strategies that aim to drive our economic diversification by attracting investment in emerging industries and creating jobs. *Budget 2021*, which was led by TBF, laid out government's spending with strong incentives for private sector growth. In 2021-22, the government will spend $3.1 billion to support economic recovery and sector strategies, including:

- Technology and Innovation Strategy;
- Tourism Recovery Plan;
- Aviation, Aerospace and Logistics Strategy;
- Pharmaceuticals and Life Science Strategy;
- Energy Strategies;
- Finance and Financial Technology Strategy; and
- Agriculture Strategy.

The ministry published the quarterly and mid-year fiscal updates and the annual budget, in compliance with legislation and Public Sector Accounting Standards (PSAS). Timely, accurate and compliant publication of fiscal information is fundamental to government in demonstrating its excellence in accountability, transparency and safeguarding of public assets for Albertans.

TBF provided support and expertise to other government ministries for policy development, planning and budgeting, and facilitated evidenced-based policy and decision-making, including:

- providing an economic lens to major government initiatives by estimating jobs and GDP impacts of programs like the Film Tax Credit, sector strategies, infrastructure spending and Environment and Parks' TIER Stimulus program;
- partnering with other provinces to improve their GDP estimation methods while developing frameworks for an Alberta GDP estimate. The project is still underway and continues to provide insight into Alberta's economy;
- working with Justice and Solicitor General on the Common Clients Service Delivery Redesign Initiative, which linked several cross-ministry databases to identify high users of government services. This initiative demonstrated the value of cross-ministry data linkage in informing how services may be better targeted and delivered more efficiently;
- developing housing indices tools for Seniors and Housing to assist with decision-making and planning. The housing needs indices are calculated based on core housing needs, vacancy rates, occupancy rates, waiting list, unemployment, and income data. The indices tool helps Seniors and Housing to identify and determine what areas of the province are most in need of help with respect to affordable housing;
- working with Service Alberta (Provincial Telecommunications division) to build a dynamic mapping tool that supports Alberta broadband strategy development. This tool displays broadband-relevant infrastructure/coverage across the province and socio-demographic information for Alberta communities, which allows for a much more detailed, visual and engaging analysis of the current extent and nature of broadband provision in Alberta; and
- working with Advanced Education to provide a geospatial analysis of foundational learning program enrollment (2018/19) that enhances business planning. This project evaluated the geographic coverage of the Foundational Learning providers across the province and how well the programs meet the target population's needs. Results were combined into a public online mapping tool, which allows the program areas in Advanced Education and external stakeholders (post-secondary learning providers) to better visualize the trends and plan resources for individual programs across the province.

TBF enhanced and streamlined the development process and format of ministry business plans and annual reports, demonstrating our commitment to continuous improvement of planning and reporting. This includes clarifying the relationship between budget spending to the results achieved, and the links between spending and outcomes, objectives and initiatives. This approach also ensures a greater emphasis on performance measurement, helping to drive change and continuous improvement in program performance.

The Performance Results[3] analysis included in the Government of Alberta Annual Report has also been improved to clearly outline how ministries addressed government priorities and objectives identified in the Government's Strategic Plan, and to better meet the legislated requirements of the *Fiscal Planning and Transparency Act*.

Ultimately, these measures allow for more targeted and relevant information that better conveys to Albertans the value of budgeted spending, including how described actions positively impact specific economic sectors, reduce red tape, and support economic growth and recovery.

Note: 3. *Performance Results* has replaced *Measuring Up*, the report developed in past years to report on government performance. *Performance Results* better reports on the specific priorities and performance indicators identified in the Strategic Plan and better meets the requirements of the *Fiscal Planning and Transparency Act*.

2020-21 Objective: Implement a rigorous capital spending framework to ensure predictable and sustainable funding, promote greater transparency, and mitigate risks

In 2020-21, TBF updated its guidelines for the capital planning framework across government to provide consistent direction to all ministries regarding the development and monitoring of the Capital Plan. This guidance helps departments and government committees develop infrastructure strategies and projects consistent with provincial capital planning and budgeting processes.

In preparation for *Budget 2021*, further rigor and transparency was added to the Capital Maintenance and Renewal (CMR) capital planning process. Increased focus was placed on prioritizing individual CMR projects.

Funding re-profiled from future years will help expedite needed CMR projects for existing infrastructure. In addition, the government increased funding for strategic infrastructure projects across the province. The government's strategy to stimulate the economy through increased and carefully informed investments during times of economic uncertainty supports the province's recovery and long-term prosperity.

The first Annual Infrastructure Report was published in 2020-21, with the purpose of informing Albertans of the year-end accomplishments with regard to infrastructure projects as set out in the Capital Plan, which is guided by the capital planning framework.

In 2020-21, the Capital Plan was increased from $7 billion to $8.2 billion reflecting increased investments in support of Alberta's Recovery Plan. This included $593 million in economic stimulus funding to municipalities, and $685 million in funding accelerated, or brought forward, from future years for CMR projects.

2020-21 Objective: Modernize policies, processes and structures to improve the efficiency and functionality of our government's finance and accounting systems

Enterprise Resource Planning System

Since 2019, the Government of Alberta has been working to upgrade its Enterprise Resource Planning (ERP) system to provide better public services by integrating financial and non-financial systems and streamlining operational processes and service functions. A new suite of online business applications, 1GX (One Government eXperience), is making it easier for both internal and external clients to do business with the Government of Alberta. This modern solution supports many functions across government and creates one experience for suppliers of goods, services or construction, and improves operational efficiency.

TBF supported the development and implementation of government's ERP system by working with ministries to understand the functionality and design of the system, especially with the finance teams to ensure that the integration of the finance systems in 1GX is effective and meets ministries' business needs.

On December 1, 2020, all ministries across the Government of Alberta moved to 1GX. During the transition period, TBF continued to work closely with the 1GX team and all ministries to support the implementation. TBF provided corporate support and leadership for activities including:

- developing consistent processes and guidance around the management and governance of the master data maintenance;
- developing standard reports for financial reporting to automate the consolidation process at the ministry and corporate level;

- ensuring data accuracy and compliance with Canadian PSAS, as well as the alignment of financial reporting with fiscal planning and current management reporting; and
- ensuring integration of financial policies/processes with 1GX implementation.

Tax Administration System

TBF administers tax, revenue, grants and other programs under multiple tax acts. During the year, TBF continued to modernize policies, processes, structures and technologies to improve the efficiency and functionality of Alberta's tax system.

- In 2020-21, TBF Introduced a new electronic online tourism levy registration form which allows accommodation operators to register and, if approved, access their online Tax and Revenue Administration Client Self-service (TRACS) account. This reduces administrative burden by combining two separate processes—program registration and enrolment—into one seamless process;
- TBF also developed system changes to extend the tourism levy to short-term rental accommodations to the tourism levy registration and return. This enables hosts to provide accommodation using other online marketplaces or otherwise to register, remit and report the tourism levy. The tourism levy online registration form has been developed to offer flexibility and the ability for TBF to transition Tax and Revenue Administration's other registration forms to be completely online. The project to add registrations in TRACS will commence in 2021-22; and
- TBF implemented system changes to the corporate income tax return to include the new Innovation Employment Grant which can be filed electronically using Netfile.

Performance Indicator: C.D. Howe Institute Fiscal Accountability Rating

	2015-16	2016-17	2017-18	2018-19	2019-20
Alberta rating	A+	A+	A	A	B+[4]

Note: 4. For 2019-20, Alberta received a B+ ranking. The latest report was released in August 2020. The 2021 report is not available at time of publication. Treasury Board and Finance published quarterly and mid-year fiscal updates and the annual budget, in compliance with legislation and the Public Sector Accounting Standards. TBF also prepared various public disclosures, all within legislated deadlines, such as General Revenue Fund (Blue Book), Grant Disclosure, Selected Payments to MLAs and the Government of Alberta Consolidated Financial Statements. Timely, accurate and compliant publication of fiscal information is fundamental to government demonstrating its excellence in accountability, transparency and safeguarding public assets for Albertans. The decline in rating was mainly due to the delay of publishing the government and ministry annual reports due to the COVID-19 pandemic.

Actions that Support the Priorities of the Government of Alberta Strategic Plan

Key Priority 3:

Standing up for Alberta

Objective 3:

A fair deal for Alberta

- In November 2020, the federal government announced changes to the Fiscal Stabilization Program which included adjustments to the program's payment cap. The cap was increased from $60 to $170 per provincial resident. While an improvement, this still results in significantly less that what the provinces would have received had Ottawa implemented the changes as recommended by the provinces and territories, which included eliminating the cap retroactively to 2015-16 and reducing the revenue decline thresholds.

2020-21 Objective: Negotiate improvements to federal-provincial fiscal arrangements, as part of securing a fair deal for Alberta within Canada

TBF continued to provide analysis and advice to the President of Treasury Board, Minister of Finance and to the Premier on federal fiscal transfer issues, as Alberta continued to advance its proposals for reforming the Fiscal Stabilization Program, the Equalization Program and the Canada Health Transfer (CHT).

TBF officials also represented Alberta on federal-provincial-territorial (FPT) and provincial-territorial (PT) committees reviewing the major fiscal transfers. The latter included the development of a report for PT Finance Ministers on options for reforming the CHT. This report, prepared for the Council of the Federation (COF) in 2020-21, supported Premiers' negotiations with the federal government on enhancing the CHT.

At the December 2020 meeting of Canada's First Ministers on health funding, the Prime Minister committed to increasing federal funding to provinces through the CHT. Negotiations on the CHT are continuing in 2021.

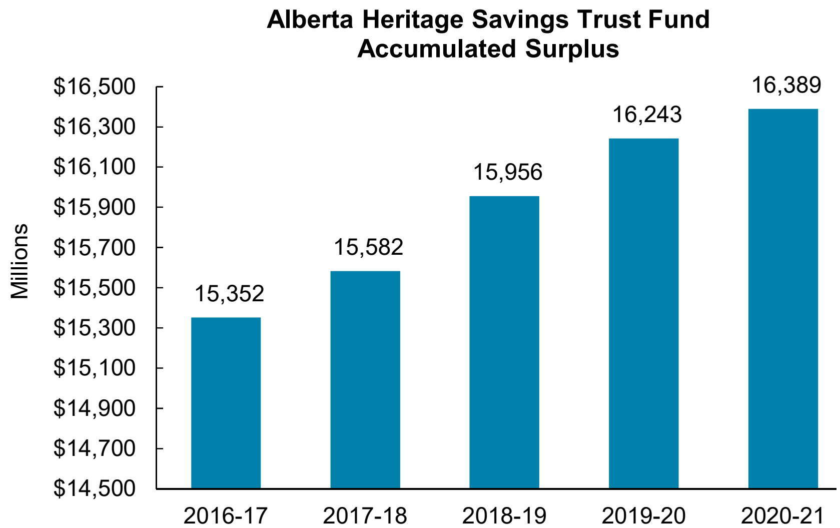
2020-21 Objective: Manage government's finance and investments

TBF is responsible for ensuring that the government has sufficient cash to fund its fiscal and capital programs, refinance maturing debt and meet the borrowing needs of provincial corporations. Throughout the year, prudent cash levels were maintained to reduce market illiquidity risks. The department prudently managed the issuance of $26.4 billion in debt to primarily deal with revenue losses and higher expenses resulting from the COVID-19 pandemic, and the significant drop in oil prices. In 2020-21, TBF:

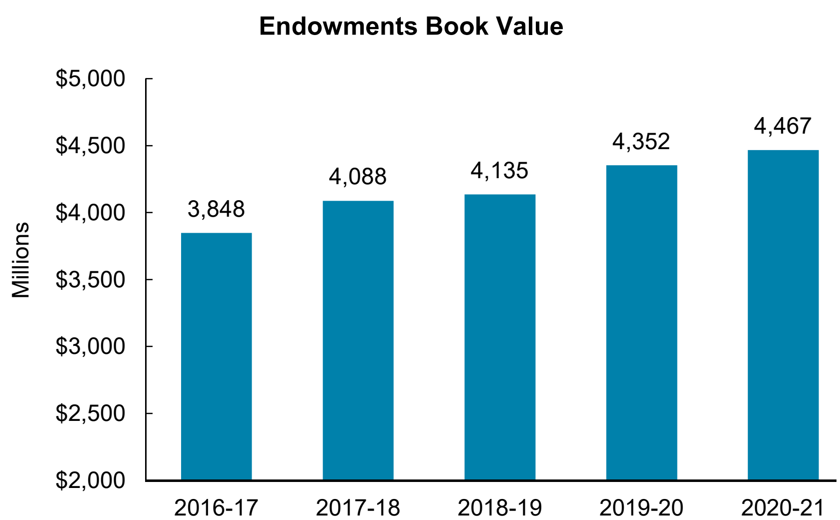
- met the province's financial requirements to ensure continued delivery of government programs;
- maintained prudent cash levels, including a cash reserve of $4 billion;
- continued to manage the province's borrowing program by diversifying sources of funding to take advantage of lower borrowing costs in both domestic and international markets. Approximately one-third of the year's borrowing was completed in international markets;
- continued to develop a diverse investor base, both domestically and internationally, to maintain and strengthen the demand for Alberta bonds; and
- dissolved the Alberta Capital Finance Authority (ACFA) in October 2020, transferring the responsibilities of the local authority lending program to TBF. This will improve the management of ACFA's credit risk portfolio by integrating the management of loans, debt and cash resources into the department.

Alberta invests in a number of saving vehicles, including the Alberta Heritage Savings Trust Fund (Heritage Fund), and various other endowments and funds. The Alberta Investment Management Corporation (AIMCo) provides investment management services to the province for these funds. The returns on these investments provide an alternate source of income to the government. During the past fiscal year, the ministry:

- Invested the Heritage Fund in a globally diversified portfolio consisting of public and private stocks and bonds, and real estate and infrastructure investments such as airports, public utilities and toll roads. All realized income is transferred to the General Revenue Fund on an annual basis except for the portion of income that is retained in the Heritage Fund to protect against inflation and maintain the real value of the fund; and



- Managed various endowment and other funds, including the Alberta Heritage Foundation for Medical Research Endowment Fund (AHFMR), the Alberta Heritage Scholarship Fund (AHSF) and the Alberta Heritage Science and Engineering Research Endowment Fund (AHSER). The endowment and other funds provide funding for specific programs. For example, the AHSER provides income to the Ministry of Advanced Education, which in turn funds priority research efforts; the AHSF provides scholarships to thousands of secondary and post-secondary students in Alberta, assisting students to pursue further academic and trades education.



* The Alberta Cancer Prevention Legacy Fund (ACPLF) was dissolved in 2020. The chart above removed ACPLF in prior year's book value for consistent comparison of information.

Performance Measure: The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI2 plus 4.5 per cent

Performance Measure	Target 2020-21	Actual 2020-21
The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI[5] plus 4.5 per cent	6.1%	7.2%

Explanation of Variance

The Heritage Fund is invested in a globally diversified portfolio of public and private market investments. Over the past five years, the Fund has benefitted from strong, sustained returns in global public equity markets due to strong fundamentals and the continued low interest rate environment. While equity markets declined significantly in early 2020, values had fully recovered by the end of 2020. At the end of March 2021, public equity markets were trading near record highs. Investments in fixed income produced relatively low returns over the last five years as a result of low interest rates. Illiquid investments, such as real estate and private equity performed well prior to the pandemic.

However, the pandemic caused many investments in illiquid markets to experience significant losses that have not yet been reversed. This is largely due to the uncertainty regarding the lasting impact of the pandemic on many of these investments[6].

Prior Year's Results

2016-17	2017-18	2018-19	2019-20
5.7%	6.0%	6.2%	6.2%

Trend

Over the past number of years, the Heritage Fund surpassed the performance target of the Fund.

Note: 5. CPI stands for Consumer Price Index. 6. An asset mix review for the Heritage Fund is currently underway, with an estimated completion date of December 2021.

Initiatives Supporting Key Objectives

- Provincial and Territorial Premiers collectively requested removal of the arbitrary $60 per resident cap on fiscal stabilization payments, retroactive to 2015-16. In response, the federal government increased the cap to $170 per provincial resident starting in 2019-20. While an improvement, this still results in significantly less that what the provinces would have received had Ottawa implemented the changes as recommended by the provinces and territories, which included eliminating the cap retroactively to 2015-16 and reducing the revenue decline thresholds. Based on current estimates, the Province is unlikely to receive any significant gains from the increase to the cap.

- Removing needless red tape found in duplicative processes and rules that do not add protections will save time, money and resources, while still protecting the environment, upholding fiscal accountability and ensuring the health and safety of Albertans. In 2020-21, the operating cost of Corporate Planning and Red Tape Reduction was $2.1 million, $1.4 million less than budget.
- In 2020-21, $12.0 million is allocated to Fiscal Planning and Economic Analysis with Economics and Fiscal Policy and Treasury Board Secretariat. Economics and Fiscal Policy provides analysis and advice on fiscal and economic issues including tax policy, the federal-provincial fiscal arrangements, demographic analysis, economic forecasting, resource and tax revenue forecasting, fiscal analysis of policy, and program initiatives. Treasury Board Secretariat provides timely, relevant and accurate budget analysis and advice to decision-makers and is accountable for the government's budgeting process. These serve as the basis for sustainable program funding. The actual spending in 2020-21 was $11.0 million.
- In 2020-21, $3.1 million was spent on Tax and Revenue Administration's Filing, Compliance, and Collections (FCC). FCC works to ensure that tax debts are resolved in a timely manner. The actual spending was $0.2 million less than budget.

Outcome Two: Policy and regulatory oversight for the liquor, gaming, cannabis, financial, securities, insurance and pensions sectors that is effective, fair and in the interests of Albertans

2020-21 Objective: Lead and implement changes to keep legislation, regulation and policy current, based on best practices and consistent with the red tape reduction initiative, including principles of regulatory efficiency

In fall 2020, the *Insurance (Enhancing Driver Affordability and Care) Amendment Act*, 2020 was passed. This act is designed to contain costs for industry, enhance care and treatment, and encourage modernization, innovation, and red tape reduction in the insurance industry.

- The legislative and consequential regulatory changes were made in response to financial pressures experienced by industry, which were having a direct impact on the cost of automobile insurance paid by Albertans. Ultimately, the reforms are expected to curb the increase of claims costs, leading to price stabilization for automobile insurance, or potentially reductions.

Alberta's pension plans fared well in 2020-21. Many of Alberta's largest public sector plans (for which the Government of Alberta is either a direct or indirect contributor) have assets greater than liabilities for financial reporting purposes. Other public sector plans saw their unfunded liability decline over the past year and are now approaching fully funded status. These positive results are due to a combination of factors, including legislative changes, investment returns, and contributions remitted to the plan by members and their employers.

The government introduced additional permanent measures that improved flexibility and reduced red tape for pension plan administrators in the past year. These outcomes include Alberta becoming a signatory to the national Agreement Respecting Multi-Jurisdictional Pension Plans, and improving flexibility to permit the online filing of audited financial statements, plan text and amendments, and fund holder documents. Alberta also amended legislation that officially enabled the full use of electronic disclosure, including beneficiary designation, for pension plans.

The ministry also initiated discussions with pension stakeholders to identify options for modernizing funding rules for defined benefit and target benefit pension plans (consistent with other provinces) and examine innovation around new pension retirement options (such as Advanced Life Deferred Annuities and Variable Payment Life Annuities). Amendments to pension legislation are anticipated for 2022.

Performance Measure: Employment pensions funded ratio

Performance Measure	Target 2020-21	Actual 2020-21
Employment pensions funded ratio[7]	100.00%	110.33%

Explanation of Variance

Median funded ratio of all defined benefit pension plans based on latest actuarial valuation.

Prior Year's Results

2016-17	2017-18	2018-19	2019-20
102.70%	106.81%	108.81%	106.85%

Trend

The funding ration experienced a marginal drop in 2019-20 due to economic impact of the COVID-19 pandemic, has now rebounded and is trending upward.

Note: 7. Funded ratio indicates the degree to which assets cover liabilities on an assumption that the plans continue to operate on an ongoing basis. Plans must be at least 100 per cent funded on an ongoing basis. LAPP, PSPP and SFPP are now formerly registered under EPPA, their funded ratios are included in the 2020-2021 actual performance.

Performance Measure: Alberta incorporated insurance companies rated as stable by the Superintendent of Insurance

Performance Measure	Target 2020-21	Actual 2020-21
Alberta incorporated insurance companies rated as stable by the Superintendent of Insurance	100%	100%

Explanation of Variance

Target met for the 2020-21 fiscal year. Previously, an insurer had shown potential for undercapitalisation due to losses from the Fort McMurray wild fires. This insurer activated its capitalization contingency plan and received funding from its parent company. Further, in recent years, this insurer has improved its capital position through various initiatives and the Superintendent of Insurance is satisfied it has returned to a stable rating.

Prior Year's Results

2016-17	2017-18	2018-19	2019-20
100%	100%	91%	91%

Trend
The property and casualty insurance market in Alberta has remained volatile with the Global hard insurance market plus the impact of the COVID-19 crisis. In 2020, automobile insurance experienced a decline in the overall frequency of claims due to less driving because of COVID-19, but property market conditions were impacted by challenging weather conditions such as flooding in Fort McMurray in April 2020 and hailstorms in Calgary in June 2020. The Superintendent will continue to monitor the impact of automobile insurance reform on provincial insurers.

2020-21 Objective: Continue to work cooperatively with other jurisdictions to improve securities regulation in Canada and ensure a provincially-led regulatory system that meets the needs of Alberta market participants and investors

Alberta is committed to updating and harmonizing Alberta's securities laws to enhance the protection on investors, promote the operation of a fair, efficient and innovative Alberta capital market and minimize systemic risks.

TBF oversees the Alberta Securities Commission (ASC), which is the regulatory agency responsible for administering the province's securities laws. It is entrusted with fostering a fair and efficient capital market in Alberta and to protect investors. As a member of the Canadian Securities Administrators (CSA), a provincial and territorial council of the securities regulators across Canada, the ASC works to improve, coordinate and harmonize the regulation of Canada's capital market.

The ASC published a consultation paper in 2019, Consultation Paper 11-701 Energizing Alberta's Capital Market, seeking input on ways the ASC can foster a vibrant public and private capital market in Alberta while protecting investors. ASC's consultation paper includes preliminary ideas from market participants on enhancements that can be made and red tape that can be reduced in the Alberta capital market.

Actions that Support the Priorities of the Government of Alberta Strategic Plan

Key Priority 1:

Supporting job creation

Objective 2:

Making Alberta open for business

- In March 2021, the Alberta Securities Commission published for comment a proposed new registration exemption for small business finders to help start-ups and other small businesses with raising capital in Alberta.
- In March 2021, the ASC, and its Saskatchewan counterpart, published for comment a proposal designed to provide greater access to capital by start-ups and other small businesses in Alberta and Saskatchewan. This will broaden investment opportunities for investors in those provinces.

In January 2021, the ASC published for comment the repeal of the Alberta Securities Commission Rule 45-509 Offering Memorandum for Real Estate Securities. The repeal of this ASC rule will streamline Alberta securities legislation and reduce regulatory burden, and came into effect on May 16, 2021.

The *Red Tape Reduction Implementation Act*, 2021 included amendments to the *Securities Act* and the *Business Corporations Act* that further modernize, streamline and harmonize Alberta securities laws. For example, companies will be allowed to raise capital under blanket orders if they meet the regulatory requirements of that order. This will eliminate the need for a company to continually apply for exemptive relief when raising capital.

Beginning in 2021 through a phased-in approach, the ASC, together with the Canadian Securities Administrators (CSA), will be consolidating its national electronic records filing systems into a single system, known as SEDAR+. This is expected to both streamline the regulatory filing process for firms and reduce their filing costs.

2020-21 Objective: Support Alberta businesses by encouraging investments and improving access to capital for small and medium sized enterprises

Alberta small and medium sized businesses can access capital through well-functioning capital markets overseen by ASC.

Initiatives Supporting Key Objectives

- In 2020-21, TBF spent $7.5 million for policy support and analysis for cannabis, liquor, gaming, insurance and private and public sector pension plans, as well as the regulation and supervision of loan and trust corporations, financial institutions, insurance companies and registered private sector pension plans. Financial Sector Regulation and Policy is the government contact for, and provides regulatory oversight to the following entities: the Automobile Insurance Rate Board, Alberta Insurance Council, Alberta Pensions Services Corporation, Alberta Liquor, Gaming and Cannabis Commission and Horse Racing Alberta. In addition, Treasury and Risk Management provides policy support and analysis for ATB Financial, other Alberta-based financial institutions and capital markets. The actual spending was $0.4 million more than budget.
- In 2020-21, $45 million is budgeted for ASC, which is the regulatory agency responsible for administering Alberta's securities laws. It is entrusted with fostering a fair and efficient capital market in Alberta and with protecting investors. As a member of the Canadian Securities Administrators, the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets. The 2020-21 actual spending by ASC was $42 million.

Outcome Three: An efficient and effective public service working for Albertans

The PSC provides HR services, workplace planning across government as well as training to support the GoA and its ABCs in delivering high quality services to Albertans at a cost in-line with similar jurisdictions.

2020-21 Objective: The PSC delivered client focused and timely HR services to support the APS to achieve government priorities

The PSC ensured that ministries and their agencies, boards and commissions (ABCs) had the necessary staff in place to continue delivering on government priorities. Over 5000 staffing actions were completed in 2020-21 to support the efficient, effective use of government human resources.

The PSC provided the necessary resources to ensure departments were able to implement programs that support Albertans in response to COVID-19 pandemic. This included dedicating resources to deliver high priority, time-sensitive recruitments, such as positions in the Pandemic Response Planning Team; Health Emergency Operations Centre; and Municipal Affairs' Vaccine Task Force.

The PSC also coordinated department staffing redeployment requests from other areas of government to ensure important financial supports were provided during the pandemic, and to support relaunch and recovery, through key programs that include:

- Small and Medium Enterprise Relaunch Grant (SMERG) program (led by Jobs, Economy and Innovation) to ease relaunch costs for small and medium businesses that were ordered to temporarily close or curtail operations because of public health orders; and
- Critical Worker Benefit program (led by Labour and Immigration), which provided a one-time payment of $1,200 to eligible health-care, social services, education and private sectors employees who were providing critical basic services to Albertans, or supporting food and medical supply chains during the pandemic.

The PSC supported decision-making and coordinated the response with regard to exit from and return to workplace at the APS, based on the evolving direction provided by the Chief Medical Officer of Health. The PSC developed policies and programs to support staff working on site and/or remotely, to ensure the health, safety, and wellbeing of staff and maintain consistent operations across departments and ministries.

More specifically, to ensure the safety of employees working on-site including those deemed as essential workers (particularly important for government staff who work directly with Albertans, including staff at the Ministries of Children's Services, Community and Social Services, Justice and Solicitor General and Service Alberta), the PSC developed and coordinated the use of COVID-19 hazard assessment templates. In addition, the PSC worked with Alberta Infrastructure to address COVID-19 issues including review of GoA facilities to address concerns as well as to develop a process for cleaning requests if an individual(s) at a GoA work site tested positive for COVID-19.

Throughout the COVID-19 pandemic, the PSC supported departments across the GoA by providing information relating to the GoA pandemic response, as well as providing support and staff resource time to assist the Provincial Operations Centre (POC) with its response to COVID-19. The PSC also engaged regularly (including weekly meetings) with the Alberta Union of Provincial Employees (AUPE) to ensure that COVID-19 issues could be raised and actively addressed

Despite the pandemic, it was important for government to continue to provide professional development opportunities to staff to ensure employees continue to have the skills and competencies required to achieve current and future government objectives. Given the health restrictions, PSC shifted leaning opportunities online, including both instructor-led and self-paced e-course training. In total, over 413,000 courses were completed over the last fiscal year, averaging approximately 16 training courses per staff member. This includes approximately 10 course completions per APS staff member to support the launch of the GoA's new enterprise resource planning system (1GX).

2020-21 Objective: Enhanced the integration, efficiency and functionality of government's HR systems to reduce administrative burden

The PSC completed process efficiencies in the HR model to support effective HR service delivery to the APS. These efficiencies focused on improving client services delivery while concurrently addressing internal themes of workflow, role clarity and job design. More specifically, this included:

- undertaking internal reorganization to streamline work, reduce duplicate workflows, while enhancing client service delivery; and
- deploying specialized staff to ministries across the GoA to ensure effective and client-focused labour and health and safety issue resolution.

PSC analyzed departments' structures and approaches, and provided guidance on the number of management employees to non-management employees. Initiatives across the APS such as redesigning organizational structures and jobs, reclassification of jobs to non-management, and reduction of positions, resulted in efficiencies, such as optimal number of employees per manager, and consistent and effective structures in alignment with best organizational design practices.

In 2020-21, the GoA launched a new enterprise resource planning system (1GX) to manage business processes and automate functions related to finance, procurement, and human resources in government. Upon full implementation, this new system will eliminate the need to manually process information and reduce duplicative processes, saving government time and cost associated with traditional manual entry.

The PSC led the implementation of the Human Capital Management function through system testing and validation as well as business readiness change management. This included integrated process design and implementation for GoA managers and supervisors through development and delivery of resources and training opportunities related to core HR functions. The PSC championed a client-driven issue resolution, and ongoing enhancement of business processes to achieve consistent, leaner practices resulting in increased efficiency.

2020-21 Objective: Fostered a respectful work environment and inclusive hiring practices

The Government of Alberta is committed to:

- an inclusive workplace that welcomes, respects and values the diversity of all employees and supports them to actively engage in the workplace and achieve their full potential;
- recruiting and retaining a workforce that reflects the diversity in Alberta; and
- supporting learning and development to reduce bias and racism, and increase inclusion.

To support these goals, the PSC provided programs and training to ensure that APS employees are encouraged to a positive workplace based on respect, inclusion, and service excellence. More specifically:

- Government is supporting Albertans with disabilities, ensuring they live full lives with dignity and equal opportunities. The PSC, in partnership with Community and Social Services, developed the Employment Program for Persons with Disabilities, which includes 15 two-year work opportunities and eight job carving opportunities. These work opportunities will commence in June 2021, with job carving opportunities commencing in September 2021.
- The PSC committed to tangible actions to deliver on its diversity and inclusion for the APS. This includes:
  - embracing, developing and retaining employees and strengthens engagement;
  - recruiting and retaining a workforce that reflects the diversity in Alberta and addresses biases faced by underrepresented groups;
  - supporting learning and development to reduce bias, racism and increase inclusion; and
  - increasing the knowledge of who works for the APS and what is needed to make the APS more diverse and inclusive.
- In support of employee professional development, the PSC developed and delivered training for all GoA staff to increase the knowledge and understanding of Alberta's Indigenous culture, history, worldviews and contemporary experiences which will support government policy makers and foster a better relationships with Alberta's Indigenous peoples. As of March 31, 2021, 13,742 employees have completed this training, this represents over 50 per cent of all GoA employees.
- The PSC also developed and delivered mandatory Wellness, Health and Safety/Anti-Harassment e-training to more than 5,400 employees in 2020-21; this represents 48 per cent of government employees identified for phase 1 of the training who now have the tools necessary to address workplace harassment, violence, and sexual harassment if they encounter it. Remaining staff members will receive training in 2021-22.

2020-21 Objective: Provided assistance, resources and advice to government departments and ABCs to support best practices in board governance, effectiveness and accountability; and led the coordinated approach to board member recruitment to support efficient, evidence-based and effective appointment of qualified candidates to ABCs

Actions that Support the Priorities of the Government of Alberta Strategic Plan

Key Priority 3:

Standing up for Alberta

Objective 3:

A fair deal for Alberta

- PSC's review of Alberta's ABCs resulted in: the dissolution of 12 boards; the amalgamation of 9 boards; and 41 boards were revised to improve efficiency, increase accountability or reduce membership size.

ABC boards must have the right complement of skills and competencies to efficiently and effectively deliver programs on behalf of government. In 2020-21, the PSC refined and improved processes for centralized recruitment to ABCs, reducing the costs incurred by government to retain private sector executive search companies. In 2020-21, the cost for the PSC to support departments and their ABCs was $1.4 million, less that the $1.8 million allocated in *Budget 2020*.

Additionally, to ensure effectiveness, accountability and excellence in public agency governance, PSC developed operational policy guides and facilitated orientation sessions to ensure consistent implementation of the governance policy across all ministries and boards.

As public agencies play an important role in growing Alberta's economy, creating jobs, and ensuring high quality frontline services, in 2020-21, the PSC reviewed all of Alberta's ABCs to identify opportunities for efficiencies and increased service delivery for Albertans, to ensure they are meeting their mandates, providing value and are aligned with government's direction. The review resulted in the dissolution of 12 boards and the amalgamation of 9 boards. In addition, 41 boards were revised to improve efficiency, increase accountability or reduce membership size.

2020-21 Objective: Continued to provide strategic negotiations and arbitration services, mandate development for bargaining, economic analysis, compensation research and data analytics

The PSC continues to lead negotiations toward a new collective agreement, providing leadership to departments on essential services levels, the contingency planning process and resources to support implementation of the Essential Services Agreement if activated. Negotiations are ongoing.

Performance Indicator: Inter-jurisdictional comparison of public administration employees per 1,000 residents of largest provinces

Performance Indicator	Jurisdiction	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual[8]
Inter-jurisdictional comparison of provincial public administration employees per 1,000 residents	Quebec	9.1	9.1	9.4	10.1	10.1
	British Columbia	6.1	6.3	6.8	6.8	7.3
	Alberta	**6.9**	**7.0**	**6.8**	**6.6**	**6.1**
	Ontario	5.5	5.7	6.0	5.9	5.4

Trend
The 2020 inter-jurisdictional comparison of provincial-public administration employees per 1,000 residents shows that Alberta has experienced a downward trend since 2018 and has remained the second smallest, only greater than Ontario.

Note: 8. The 2020 inter-jurisdictional comparison of provincial-public administration employees per 1,000 residents shows that Alberta has experienced a downward trend since 2018 and has remained the second smallest, only greater than Ontario.

Outcome Four: Effective, efficient communication of government priorities and initiatives

Reduction in staff numbers and operating costs continued at CPE in 2020-21, reflecting the success of consolidation of government communications in 2017.

A cost reduction of 22 per cent - or $9 million has now been achieved for services over the 2017 cost. At the conclusion of fiscal year 2020-21, CPE had 264 full-time equivalent positions, down from the 317 that was CPE's initial complement in 2017, comprised of government communications staff in 21 different ministries and the former Public Affairs Bureau.

CPE has achieved these staff reductions through attrition and reorganization. Its corps of communications professionals continues to deliver effective and efficient services at the highest standards. In 2020-21:

- a translation services unit was reduced overall by two positions but expanded its services available to reach a broader number of Albertans with greater needs. Following a strategic review of translation unit operations in 2020-21, at an overall lower cost CPE now supports translations into 13 languages, where previously it supported four;
- Premier's correspondence unit actioned 26,819 pieces of correspondence, an increase from 21,126 with no increase in staff and a shift to work-from-home in the first quarter;

- CPE's web team enhanced functionality on alberta.ca to improve the experience for Albertans using data tables, maps and forms on the site;
- the public engagement team launched a digital engagement platform, allowing Albertans all over the province to participate virtually in government engagements on a range of topics; and
- CPE's response to the global pandemic won recognition from the third-party International Association of Business Communicators, which labelled the CPE COVID-19 response team "Inspired Communicators of the Year."

2020-21 Objectives: Present government information across a spectrum of platforms including paid advertising, web, social media, text, email, signage, mail, print, video, graphics and audio, and to mainstream media on demand. Continue to modernize communications IT tools and infrastructure to maintain efficient two-way communications with Albertans

Two-way and direct-with-Albertans communications channels were deployed to unprecedented extent by CPE in 2020-21. For example:

- CPE provided support for 92 telephone town hall events in 2020-21 that directly connected tens of thousands of Albertans with policy makers and senior government officials;
- CPE direct-communication channels between government and Albertans also grew substantially in 2020-21: there was a 156% increase in web users, 217% increase in Instagram followers, 270% increase in Facebook followers, 31% increase in Twitter followers and a 70% increase in YouTube subscribers.

Demand for CPE services was significant throughout 2020-21 in the face of the global pandemic, and continued as the fiscal year ended. In support of the government's pandemic response, CPE's Outreach branch – the team that provides creative and advertising services to government increased outputs by over 300%, developed more than 2,000 creative assets for pandemic advertising, and executed a complex advertising campaign that generated 1.7 billion impressions.

Social media posting frequency was increased by 45% for proactive pandemic communications while comments and messages to the government on social channels increased by 235% and were managed by the same team.

Performance Measure: Alberta.ca sessions (in millions) per capita

Performance Measure	Target 2020-21	Actual 2020-21
Alberta.ca sessions per million population	2.5	28.6
Explanation of Variance		
Significantly increased public access to government information throughout the year beginning in March 2020 due to the emergence of the COVID-19 pandemic in Alberta.		

Prior Year's Results			
0.094	N/A	3.0	8.9
2016-17	2017-18	2018-19	2019-20

Trend

Results comparison year-over-year is affected by the unprecedented public demand on government channels related to coronavirus impacts, which is reflected in just one month of the 2019-20 results, but all 12 months of the current fiscal year. There was no data collected prior to 2019 as this measure was created with a first target in 2018-19.

Performance Measure: Proactive and reactive communications to Albertans via government channels (in millions)

Performance Measure	Target 2020-21	Actual 2020-21
Proactive and reactive communications to Albertans via government channels (in millions)[9]	59	155.3

Explanation of Variance

Significantly increased public access to government information throughout the year beginning in March 2020 due to the emergence of the COVID-19 pandemic in Alberta.

Prior Year's Results			
N/A	N/A	80.8	155.3
2016-17	2017-18	2018-19	2019-20

Trend

Results comparison year-over-year is affected by the massive public demand on government channels related to the COVID-19 pandemic impacts, which is reflected in just one month of the 2019-20 results, but all 12 months of the current fiscal year. There was no data collected prior to 2019 as this measure was created with a first target in 2018-19.

Note: 9. Social media connections with Albertans via government channels (in millions). (This measure sums social media impressions for @youralberta social channels (Facebook, Twitter, Instagram) as measured by each platform; video views for @youralberta on YouTube; and, Alberta.ca web page views)

As recently as 2018-19, when the actual was 59 million, CPE's actuals and targets were aligned. CPE will re-scope the targets in its Business Plan 2022-25.

Performance Measure and Indicator Methodology

Performance Measure: 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 operating budget. Additional revenue and operating budget does not include amounts reflecting the Compliance and Assurance team from Energy, Crown Debt Collections unit from Service Alberta, and Employment Standards Collections group from Labour and Immigration.

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 ERP system reports and ad hoc reporting created for the purpose required. Administrative costs are obtained through the Government of Alberta ERP accounting system.

Performance Measure: The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5 per cent.

Methodology

- The performance measurement system employed by AIMCo calculates a total return of the Heritage Fund.
- The policy benchmark is calculated through a weighted composition of independently calculated market benchmarks which represent the strategic asset mix of the fund as set by the Ministry of Treasury Board and Finance.
- A comparison is made between annualized five-year market value rate of return of the Heritage Fund and the annualized five-year return of the policy benchmark.

Source

The Heritage Fund return is calculated by the investment performance and analytics group within AIMCo's investment operations team using SS&C Sylvan as the official performance system.

Performance Measure: Value of pursuable Corporate Income Tax debt (tax debt not under dispute) as a percentage of total Corporate Income Tax revenue

Methodology

- The measure is calculated by dividing the value of pursuable corporate tax debt for the fiscal year by total corporate tax revenue for the fiscal year.

Source

Data is generated through existing tax and revenue administration fiscal year end processes. The pursuable corporate tax debt (including interest and penalties) and the total corporate tax revenue are from the Ministry of Treasury Board and Finance working papers for the fiscal year annual report.

Performance Indicator: CFIB Red Tape rating

Methodology

- CFIB's Red Tape Report Card has been published every year since 2011. It grades the federal and provincial governments on their progress in tackling excessive regulation, based on the following criteria:
  - Leaders' willingness to cut red tape.
  - Whether the jurisdiction keeps a public registry of all regulations, allowing it to identify red tape to cut.
  - Whether the jurisdiction has a limit on new regulations (such as a "one-for-one" rule, which requires every new regulation to be offset by eliminating an existing one)*

Source

CFIB 2021 Red Tape Report Card - https://www.cfib-fcei.ca/sites/default/files/2021-01/Red-Tape-Report-Card-2021.pdf.

* https://www.cfib-fcei.ca/en/research-economic-analysis/red-tape-report-card

Performance Indicator: C.D. Howe Institute Fiscal Accountability rating

Methodology

- The C.D. Howe Institute published a report on the fiscal accountability, transparency and reliability of Canadian governments, focusing on the relevance, accessibility, timeliness and reliability of a government's budgets, estimated spending authorized by legislatures, and audited year-end financial statements. The report ranks the fiscal accountability, transparency and reliability from A to F.

Source

The ABCs of Fiscal Accountability: Grading Canada's Senior Governments, 2020 https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary%20577_0.pdf.

Performance Measure: One-third red tape reduction of regulatory requirements used in Government of Alberta statutes, regulations, policies, guidelines, and forms, with the exception of regulations that deal with safety and soundness of the financial institutions and markets

Methodology

- A regulatory requirement is any action that a citizen, business, or government must take to access government services or programs, carry out business or pursue legislated privileges. These requirements can be seen in instances where stakeholders have the obligation to do something as referenced in various types of regulatory instruments: statutes, regulations, policies and forms. Regulatory requirements are typically identified by words such as "shall," "must," or "required."
- A baseline count of regulatory requirements in government's statutes, regulations, policies and forms as of May 1, 2019 was completed in February 2020 by all Ministries in accordance with the methodology and guidelines developed by TBF. As regulatory instruments are revised, added, or repealed, ministries are required to update their counts of regulatory requirements by reporting any resulting changes in the number of regulatory requirements to TBF.

Source

Treasury Board and Finance

Performance Indicator: Employment pensions funded ratio

Methodology

- This is the average of all the defined benefit pension plans funded ratio based on the latest actuarial valuation filed with employment pensions. Depending on when the last valuation is filed, the data can be up to three years late as plans file every three years.

Source

Actuarial valuations filed with employment pensions and loaded into an internal TBF database.

Performance Indicator: Alberta incorporated insurance companies rated as stable by the Superintendent of Insurance

Methodology

- Insurers' Minimum Capital Test (MCT) scores are reported quarterly by insurers in their quarterly filings with the Superintendent of Insurance, and when the score exceeds our threshold of 210 per cent, insurers are considered stable. Scores are also compared to the average MCT reported by the Office of the Superintendent of Financial Institutions regulated insurers for context with the rest of Canada.

Source

Insurers provide MCTs to the Superintendent of Insurance on a quarterly basis.

Performance Indicator: Inter-jurisdictional comparison of provincial public administration employees per 1,000 residents

Methodology

- The inter-jurisdictional comparison of provincial public administration employees per 1,000 residents is determined by dividing the annual employment of provincial public administration by the average of quarterly population estimates and then multiplying by 1,000.
- Provincial public administration comprises establishments of provincial or territorial governments primarily engaged in activities of a governmental nature, such as legislative activities, judicial activities, taxation, public order and safety, and the administration of provincial or territorial government programs.
- Provincial public administration employment includes employees that are actively being paid in the reporting periods (employees paid by the hour, salaried employees and other employees).

Source

- Statistics Canada. Table: 17-10-0009-01 (formerly CANSIM 051-0005) Population Estimates, Quarterly.
- Statistics Canada. Table: 14-10-0202-01 Employment by Industry, Annual, based on the Survey of Employment, Payrolls and Hours.

Performance Measure: Alberta.ca sessions per million population

Methodology

Alberta.ca sessions for the period are divided by the estimated Alberta population at the final quarter of the period.

- A session is a group of user interactions with a website that take place within a given time frame. A single session can contain multiple page views, events, social interactions, and transactions.

- Alberta.ca sessions are measured by Google Analytics. The number used for this measure is found on Communication and Public Engagement's "Alberta Filtered" profile (which excludes sessions from government IP addresses), with the "Alberta visitors" segment turned on.
- Alberta's population can be found on the Alberta Economic Dashboard.

Source

- Google Analytics (CPE's "Alberta Filtered" profile, "Alberta visitors" segment)
- Alberta Economic Dashboard (https://economicdashboard.alberta.ca/Population)

Performance Measure: Proactive and reactive communications to Albertans via government channels (in millions)

Methodology

This measure sums social media impressions, video views, and web page views. For the period in question, sum the following numbers:

- Impressions for @youralberta social channels (Facebook, Twitter, Instagram) as measured by each platform;
- Video views for @youralberta on YouTube; and
- Alberta.ca total page views (not unique), using the "Alberta Filtered" profile.

Source

Social media platforms (Facebook, Twitter, Instagram, YouTube) Google Analytics (CPE's "Alberta Filtered" profile)

Financial Information

Year ended March 31, 2021

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Reporting Entity and Method of Consolidation

The financial information is prepared in accordance with government's stated accounting policies, which are based on Canadian Public Sector Accounting Standards.

The reporting entity is the ministry for which the Minister is accountable. The accounts of the ministry, which includes the department and the entities making up the ministry, are fully consolidated using the line-by-line method, except for government business enterprises (GBEs).

Under this method, accounting policies of the consolidated entities are adjusted to conform to government accounting policies and the results of each line item in their financial statements (revenue, expense, assets, and liabilities) are included in government's results. Revenue and expense, capital, investing and financing transactions and related asset and liability balances between the consolidated entities have been eliminated.

GBEs are accounted for on a modified equity basis, with the equity being computed in accordance with the accounting standards applicable to those entities. Under the modified equity method, the accounting policies of the GBEs are not adjusted to conform to those of the government. Inter-entity revenue and expense transactions and related asset and liability balances are not eliminated.

A list of the individual entities making up the ministry are shown on the "Management's Responsibility for Reporting" statement included in this annual report.

Ministry Financial Highlights

- Statement of Revenues and Expenses (unaudited)
- Revenue and Expense Highlights
- Breakdown of Revenues (unaudited)
- Expense - Directly Incurred Detailed by Object (unaudited)

Statement of Revenues and Expenses (unaudited)

	2021		2020	Change from	
	Budget	Actual	Actual	Budget	2020
		($ millions)	(Restated)		
Revenues					
Income taxes	$ 17,105	$ 14,293	$ 15,351	$ (2,812)	$ (1,058)
Other taxes	3,156	2,743	3,197	(413)	(454)
Transfers from Government of Canada	1,760	3,223	2,012	1,463	1,211
Investment income	2,254	2,246	2,472	(8)	(226)
Net income from government business enterprises	2,486	1,889	2,285	(597)	(396)
Premiums, fees and licences	198	190	153	(8)	37
AIMCo Investment Management Charges	538	540	386	2	154
Other revenue	86	94	102	8	(8)
Ministry Total	27,583	25,218	25,958	(2,365)	(740)
Inter-ministry consolidation adjustments	(191)	(169)	(183)	22	14
Adjusted ministry total	27,392	25,049	25,775	(2,343)	(726)
Expenses - Directly Incurred					
Ministry Support Services	8	7	8	(1)	(1)
Budget Development and Reporting	6	6	5	-	1
Fiscal Planning and Economic Analysis	6	5	6	(1)	(1)
Investment, Treasury and Risk Management	323	399	375	76	24
AIMCo Investment Management Services	537	541	387	4	154
Office of the Controller	8	5	6	(3)	(1)
Tax and Revenue Management	42	27	44	(15)	(17)
Carbon Tax - Consumer Rebates	7	20	160	13	(140)
Financial Sector and Pensions	186	176	181	(10)	(5)
Provincial Bargaining Coordination Office	3	3	2	-	1
Corporate Planning and Red Tape Reduction	3	2	2	(1)	-
Public Service Commission	67	59	70	(8)	(11)
Communications and Public Engagement	32	37	36	5	1
Gaming	40	27	43	(13)	(16)
Alberta Family Employment Tax Credit	41	45	160	4	(115)
Scientific Research and Experimental Development Tax Credit	68	82	81	14	1
Teachers' pre-1992 pensions - Payments	488	491	488	3	3
Change in Unfunded Pension Obligations	(269)	(183)	(218)	86	35
Corporate income tax allowance provision	15	109	28	94	81
Debt servicing - general government	2,408	2,378	2,136	(30)	242
Contingency and disaster and Emergency Assistance	750	-	-	(750)	-
Ministry Total	4,769	4,236	4,000	(533)	236
Inter-ministry consolidation adjustments	(192)	(179)	(186)	13	7
Adjusted ministry total	4,577	4,057	3,814	(520)	243
Annual Surplus	$ 22,815	$ 20,992	$ 21,961	$ (1,823)	$ (969)

Revenue and Expense Highlights

Actual to budget comparison

Revenue
(*$millions*)

2020-21	2020-21
Actual	Budget
$25,218	$27,583

Revenue for the ministry was $2,365 million, or 9 per cent lower than budget.
Comparison of actual to budget revenue results

- Personal income tax revenue was $1,309 million lower than budget due primarily to the severe Covid-19 related impacts to employment in 2021, which shrunk household incomes. The pandemic had disproportionate impacts across economic sectors and was especially severe in the service industries, affecting employment, income and business activity. Many of these sectors continue to operate below full capacity due to the ongoing pandemic.
- Corporate Income tax revenue, along with related interest and penalties was $ 1,502 million lower than budget due to economic effects of the COVID-19 pandemic, as well as the oil price shock driven by the OPEC dispute.
- Other tax revenue from all sources was $413 million lower than budget. The largest variances were due to lower than anticipated consumption in Tobacco tax and Fuel tax which were $109 million and $285 million lower than budget, respectively. Tourism levy was $59 million lower than budget due to lower tourist activities. This was partially offset by larger than anticipated growth in insurance premiums resulting in Insurance taxes of $6 million higher than budget and higher than expected cannabis tax revenue by $39 million as a result of higher than expected consumption.
- Transfers from the Government of Canada were $1,463 million higher than budget predominantly due to $1,301 million in funding received for safe restart agreement of which $ 99 million was deferred and $347 million in funding received for critical workers benefit agreement of which $76 million was deferred. This is slightly offset by less funding from the Canada Social Transfer as it is based on the Province's share of the national population which was lower than anticipated..
- Investment income was only $8 million lower than budget due to slightly lower than anticipated recovery of markets and timing of investment hold vs. sell decisions.
- Net income from government business enterprises was $597 million lower than budget due to net income from ATB Financial $49 million less than anticipated. In addition, AGLC's net income was $545 million lower than anticipated primarily due to decreased gaming sales throughout the year primarily due to the closure of casinos in response to Covid-19, partially offset by operating expense savings and net liquor revenue being higher than anticipated.
- Premiums, fees and licenses were $8 million lower than budget predominantly due to net income of ATB Financial being lower than anticipated resulting in less revenue from ATB Financial for the payment in lieu of taxes.
- Other revenue was $8 million higher than budget due largely to increase in refunds of prior year expenditure and miscellaneous revenue.

Expenses
($*millions*)

2020-21	2020-21
Actual	Budget
$4,236	$4,769

Expenses for the ministry were $533 million, or about 11 per cent under budget.
Comparison of actual to budget expense results

- Investment, Treasury and Risk Management expenses were $80 million higher than budget as investment management costs for both internal heritage fund clients and external pension plan clients were higher, correlated with high returns on investments managed by AIMCo. In particular, AIMCo incurred higher external third party investment performance fees than originally anticipated based on investment performance exceeding expectations.
- Gaming was $13 million lower than budget predominantly due to lower than anticipated funding for Horse Racing and Breeding Renewal Program largely due to Covid-19 and closures of Racing Entertainment Centres.
- Carbon Tax – Consumer Rebates was $13 million higher than budget. Carbon Tax – Consumer Rebate was a refundable tax credit provided to lower and middle income Alberta households to help them adjust to the cost of carbon. This program is delivered by the federal government on Alberta's behalf. The program ended on June 30th, 2019 but households still be able to receive amounts under the program if they file late or are being reassessed for applicable years. Residual expenditures will be recorded in the fiscal year they are received. Current year actuals are higher than anticipated due to more rebates claimed from assessed tax returns than expected.
- The Scientific Research and Experimental Development Tax Credit was $14 million higher than budget. The original budget included all remaining expected tax credits being completed in 2019- 20 as the eligibility period is now restricted to January 1, 2020. However, eligible corporations have up to 15 months after the corporations filing deadline to file an eligible claim. The increase is due to more eligible companies filing for credit than anticipated.
- The change in unfunded pension obligation resulted in a lower recovery than budget by $86 million, due to the lowering of the discount rate on Teachers' Pre-1992 Pension Plan and Provincial Judges and Masters in Chambers Pension Plan had an obligation of $40 million.
- Corporate income tax allowance Actuals are higher than budgeted by $94 million. In response to the economic impacts due to COVID-19 and higher risk of uncollectible corporate income tax receivable, the threshold to review individual accounts for collectability was lowered. This has resulted in an increase in specific accounts that were required to be added to the corporate income tax allowance for doubtful accounts.
- Total debt servicing costs were $30 million lower than budget due to sustained low borrowing rates throughout the year.
- There were no expenses incurred by the ministry for Contingency and disaster and Emergency Assistance budget of $750 million. $107 million of contingency supply was transferred to Agriculture and Forestry per Order in Council No .091/2021.

Actual to actual comparison of the year-over-year results

Revenue

(*$millions*)

2020-21	2019-20
Actual	Actual
$25,218	$25,958

Revenue for the ministry was $740 million, or 3 per cent lower than in 2019-20.

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

- Personal income tax revenue was $13 million higher than the previous year due to a positive prior year adjustment related to the 2020 tax year as pandemic impacts on taxable income were not severe as forecast at 2019-20 year end.
- Corporate income tax revenue along with related interest and penalties was $1,070 million lower than last year due to the combination of lower corporate income tax rate, higher refunds paid then prior year, the pandemic had disproportionate impacts across economic sectors and were especially severe in the service industries, affecting employment, incomes and business activity. Many of these sectors continue to operate below full capacity due to the ongoing pandemic.
- Other tax revenue was lower than the previous year by $454 million predominantly due to a $195 million decrease in the Carbon Levy as a result of Bill 1, An Act to Repeal the Carbon Tax, which repealed the levy effective May 30, 2019. In addition, Tobacco tax and Fuel tax decreased by $50 million and $236 million respectively due to decreased consumption. This is offset by increases in Cannabis tax revenue of $37 million and growth in Insurance tax by $49 million.
- Transfers from the Government of Canada was $1,211 million higher than the prior year as a result of $1,301 million in funding received for the safe restart agreement and $347 million in funding received for the critical workers benefit agreement. $99 million and $76 million was deferred for safe restart agreement and critical workers benefit, respectively. In addition, there was an increase in the Canada Social Transfer national entitlement available to provinces as well as an increase in population share leading to a $49 million increase.
- Investment income was $226 million lower than the previous year due to strong realized gains in the first eleven months of the previous year combined with a slow gradual recovery of markets from the COVID-19 pandemic in the current year. Low interest rates in the current year also put downward pressure on investment income due to the impact of loan interest rate swaps which pay interest at a fixed rate to receive a floating rate.
- Net income from government business enterprises was $396 million lower than last year. Income from AGLC decreased by $503 million due predominantly to a decrease in net gaming revenue from less gaming sales throughout the year, primarily due to closure of casinos in response to Covid-19. In addition, income from ATB Financial increased by $108 million as there was a decrease in the provision for loan losses.
- Premiums, fees and licenses increased by $37 million, compared to last year. This is primarily due to the increase in income from ATB Financial resulting in increased revenue from the payment in lieu of taxes.
- AIMCO revenue was up by $154 million from last year due primarily to AIMCo incurring higher external third party investment management and performance fees recovered from clients.

Expenses

($*millions*)

2020-21	2019-20
Actual	Actual
4,236	$4,000

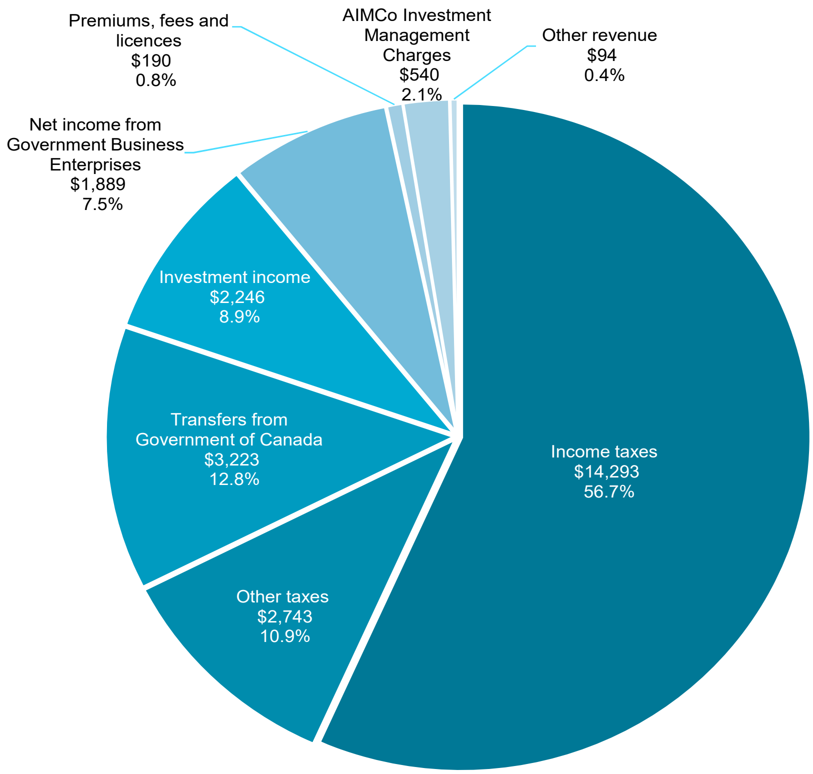
Ministry expenses were $236 million, or 6 per cent higher than in 2019-20.
Comparison of year-over-year results (actual to actual)

- Investment, Treasury and Risk Management expenses were $178 million higher due to increased investment management costs driven by increased investment performance for both internal heritage fund clients and external pension plan clients on investments managed by AIMCo. In particular, AIMCo incurred higher external third party investment management and performance fees based on stronger than expected investment returns.
- Tax and Revenue Management expenses were $17 million lower than last year. This is due to less statutory refund interest paid on corporate income tax refunds. The reason being there were fewer objection resolutions in which there was significant taxable income reductions to previous year; this corresponds to a reduction in required statutory refund interest to be paid to taxpayers.
- Public Service Commission expenses decreased by $11 million due to vacancies and strategic position management and in addition savings in supplies and services because of the COVID-19 pandemic.
- Alberta Family Employment Tax credit (AFETC) decreased by $115 million as starting July 1 2020, AFETC payments were no longer issued, this program was replaced by Alberta Child and Family Benefit (ACFB) which is reported under Children's Services.
- The Carbon Tax Consumer Rebate decreased by $140 million compared to prior year as – Bill 1, An Act to Repeal the Carbon Tax, also repealed the issuance of rebates to taxpayers starting June 30, 2019. However, retroactive payments will continue to be issued for the period of January 2017 to June 2019 for those eligible taxpayers who file late.
- The Gaming expenses decreased by $16 million compared to prior year as lower than anticipated funding for Horse Racing and Breeding Renewal Program largely due to Covid-19 and closures of Racing Entertainment Centres.
- Teachers' pre-1992 pension liability funding increased by $3 million compared to prior year due to increased benefit payment requirements.
- The change in unfunded pension obligation resulted in a decreased pension recovery of $35 million compared to the prior year. The decrease is largely due to the Teachers pre-92 pension plan provision of $156 million, which decreased $29 million from the year before as the liability is being decreased over time.
- The corporate income tax allowance adjustment increased by $81 million. In response to the economic impacts due to COVID-19 and higher risk of uncollectible corporate income tax receivable, the threshold to review individual accounts for collectability was lowered. This has resulted in an increase in specific accounts that were required to be added to the corporate income tax allowance for doubtful accounts.
- Debt servicing costs for general government is $242 million higher than the prior year, expectedly correlated with the overall increase in total debt.

Breakdown of Revenues (unaudited)

($ millions)

The following information presents detailed revenue of the Ministry. The total Revenue for 2020-21 for Treasury Board and Finance was $25,218, million, a decrease of $2,365 million from the budget.



Income Taxes:
($14,293 million or 56.7 per cent of the total revenue)

Income taxes remained the largest contribution to Treasury Board and Finance revenue.

- Income tax actuals were lower by $2,812 million, or 16 per cent lower than budget.
- Personal Income tax revenue was $11,257 million. This was $1,309 million or 10 per cent lower than budget.
- Corporate Income tax revenue along with related interest and penalties on corporate income tax was $ 3,037million. This was $1,502 million, or 33 per cent lower than budget.

Other taxes:
($2,743 million or 11 per cent of the total revenue)

- Other taxes actuals were lower by $413 million or 13 per cent than budget.
- Tobacco tax revenue was $755 million being $109 million lower than budget, fuel tax revenue was $1,138 million being $285 million lower than budget.
- Tourism levy was $33 million being $59 million lower than budget.
- The decrease in other taxes revenue was slightly offset by Cannabis tax revenue of $113 million being $39 million higher from budget and Insurance tax of $703 million being $6 million higher from budget.

Transfers from Government of Canada:
($3,223 million or 12.8 per cent of the total revenue)

- Transfers from Government of Canada were higher by $1,463 million or 83 per cent from budget. The safe restart agreement transfer of $1,301 million. Critical workers benefit transfer was $345 million was not included in the budget. $99 million and $76 million was deferred for safe restart agreement and critical workers agreement respectively.

Investment Income:
($2,246 million or 9 per cent of the total revenue.)

- Investment income was $8 million or 0.4 per cent lower than budget.

Net income from Government Business Enterprises:
($1,889 million or 7.5 per cent of the total revenue)

- Net income from government business enterprises of $1,889 million represents $1,659 million or 88 per cent from AGLC, $211 million or 11 per cent from ATB Financial, and $19 million or 1 per cent from CUDGC . Income from these enterprises was $597 million or 24 per cent lower than budget.

Premiums, fees and licences:
($190 million, or less than 1 per cent of the total revenue)

- Premiums, fees and licenses were $9 million or 5 per cent lower from budget. Payment in lieu of taxes of $63 million and deposit guarantee fee of $58 million from ATB Financial totaling $121 million is the largest source of premium, fee and license revenue, followed by $55 million for fees of the Alberta Securities Commission.

AIMCo Investment Management Charges:
($540 million or 2 percent of the total revenue)

- AIMCo Investment Management charges were $2 million higher than budget.

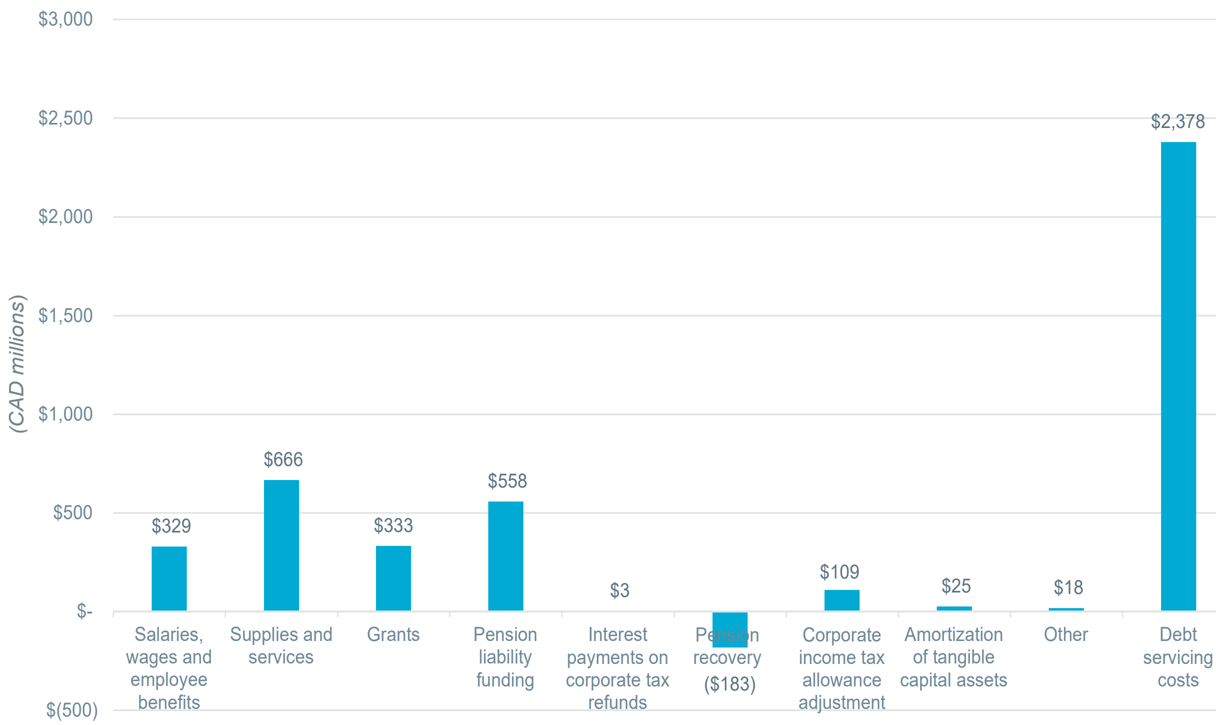
Other revenue;
($94 million or less than 1 per cent of the total revenue)

- Other revenue was $8 million or 9.3 per cent higher than budget.

Expenses - Directly Incurred Detailed by Object (unaudited)

($ millions)

The following information presents expenses of the Ministry that were directly incurred by object. The total expense for 2020-21 for Treasury Board and Finance was $4,236 million, an increase of $236 million from previous year 2019-20 and $533 million lower than the budget.



Salaries, wages and employee benefits:
($329 million or 7.7 per cent of the total expenses)

- Salaries, wages and employee benefits were $36 million, or 10 per cent lower than budget. The decrease was primarily due to staffing vacancies.

Supplies and Services:
($666 million or 15.7 per cent of the total expenses)

- Supplies and Services were $69 million, or 12 per cent higher than budget largely due to AIMCo incurring higher external third party investment fees

Grants:
($333 million or 7 per cent of the total expenses)

- Grants were $35 million higher than budget, mainly due to higher expenses in scientific research and experimental development tax credit by $14 million compared to budget, gaming grant funding was lower by $13 million due to COVID-19 closures, Carbon tax – Consumer rebate was $13 million higher than budget and Alberta Family Tax credit was $4 million higher than budget.

Pension liability funding:
($558 million or 13 per cent of the total expenses)

- Pension liability funding actuals were $1 million lower than budget as the rate of retirement from pension plan members and mortality rates remained mainly same throughout the year.

Interest payments on corporate tax refunds:
($3 million or less than 1 per cent of the total expenses)

- Interest payments on corporate tax refunds were $14 million or 82 per cent lower than budget due to less refund interest on corporate income taxes than what was anticipated.

Pension Recovery:
($183 million or (4) per cent of the total expenses)

- Pension recovery was $86 million, or 32 per cent lower than budgeted.

Corporate income tax allowance adjustments:
($109 million or 2.5 per cent of the total expenses)

- Corporate income tax allowance actuals are higher than budgeted by $94 million. In response to the economic impacts due to COVID-19 and higher risk of uncollectible corporate income tax receivable, the threshold to review individual accounts for collectability was lowered. This has resulted in an increase in specific accounts that were required to be added to the corporate income tax allowance for doubtful accounts.

Amortization of tangible capital assets:
($25 million or 1 per cent of the total expenses)

- Amortization expenses were $4 million lower than budget.

Other:
($18 million or less than 1 per cent of the total expenses)

- Other expenses include interest & bank charges. Other expenses were $17 million higher compared to budget.

Debt servicing costs:
($2,378 million or 56 per cent of the total expenses)

- Debt servicing costs were $30 million, or 1 per cent lower than the budget due to sustained low borrowing rates throughout the year.

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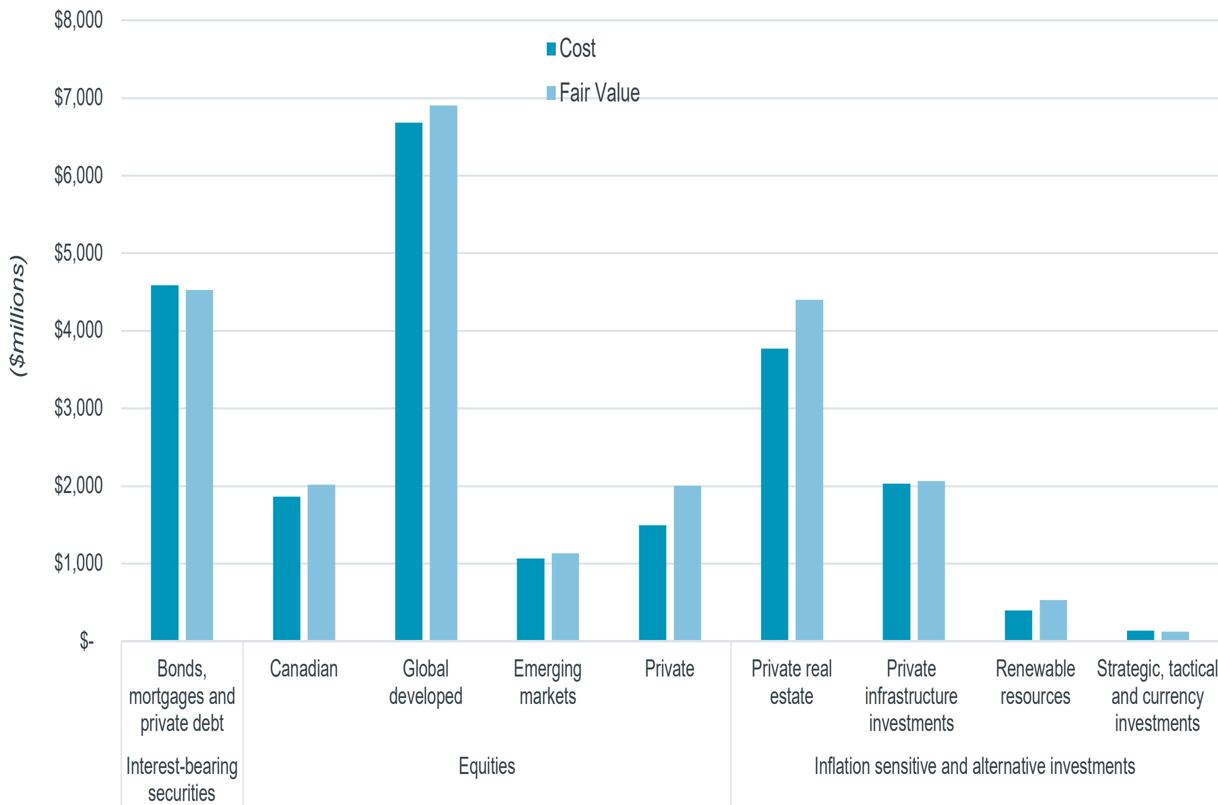
Supplemental Financial Information

- Portfolio Investments (unaudited)
- Equity in Government Business Enterprises (unaudited)
- Loans and Advances (unaudited)
- Debt (unaudited)
- Pension Liability (unaudited)

Portfolio Investments (unaudited)

Comparison of Cost to Fair Value
Year ended March 31, 2021
($ millions)

The total portfolio investment for 2020-21 was $22,028 million at cost and $23,713 million at fair value.

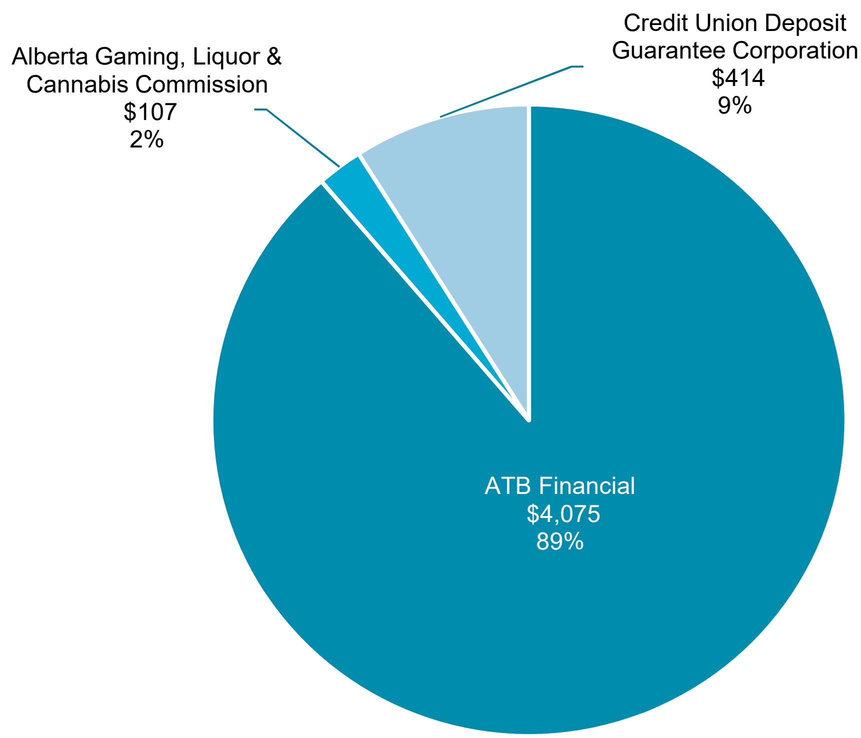


- Mainly comprised of assets designated in legislation for a specific purpose, such as stewardship of savings for current and future generations, medical research, science and engineering research, and post secondary scholarships.
- At March 31, 2021 interest-bearing securities had a fair value lower than cost by $63 million or 1%, total equities had a fair value which exceeded cost by $961 million or 9% and total inflation sensitive and alternative investments had a fair value which exceeded cost by $787 million or 12%.

Equity in Government Business Enterprises (unaudited)

Year ended March 31, 2021
($ millions)

The total equity in Government Business Enterprises at the end of the year 2020-21 was $4,596 million



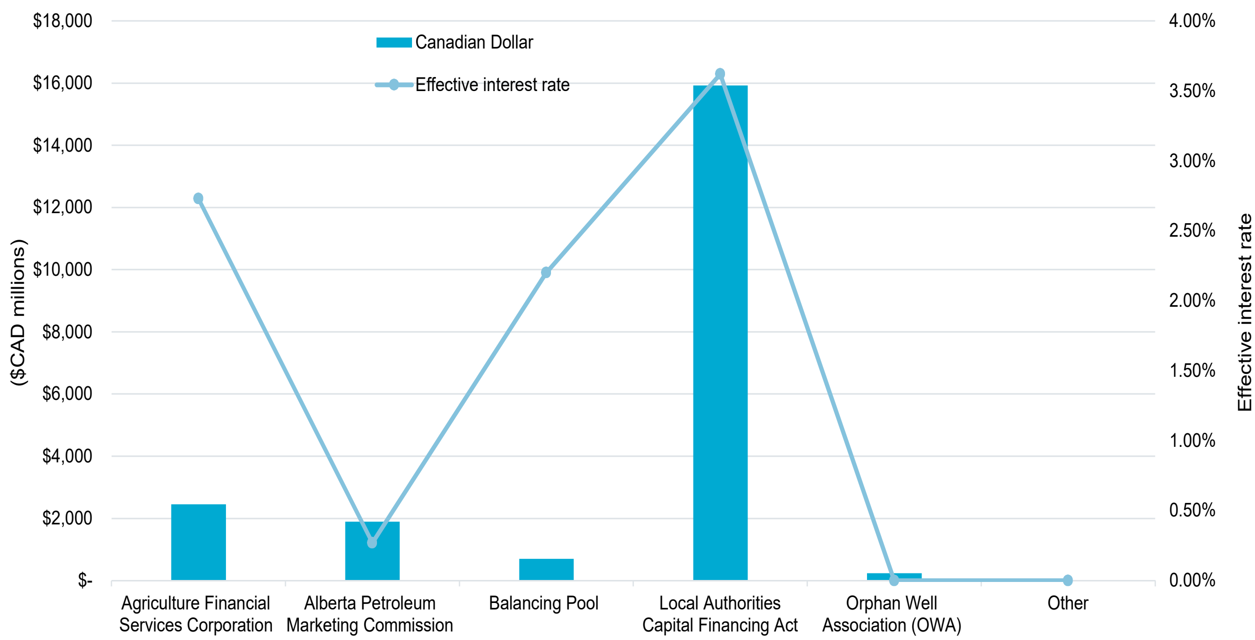
- Alberta Gaming, Liquor and Cannabis Commission (AGLC), ATB Financial (ATB) and Credit Union Deposit Guarantee Corporation (CUDG) are government business enterprises and are consolidated on a modified equity basis.

Loans and Advances (unaudited)

Year ended March 31, 2021

($ millions)

Loans and Advances for Ministry of Treasury Board and Finance are $21,234 million (2020: $20,114 million).

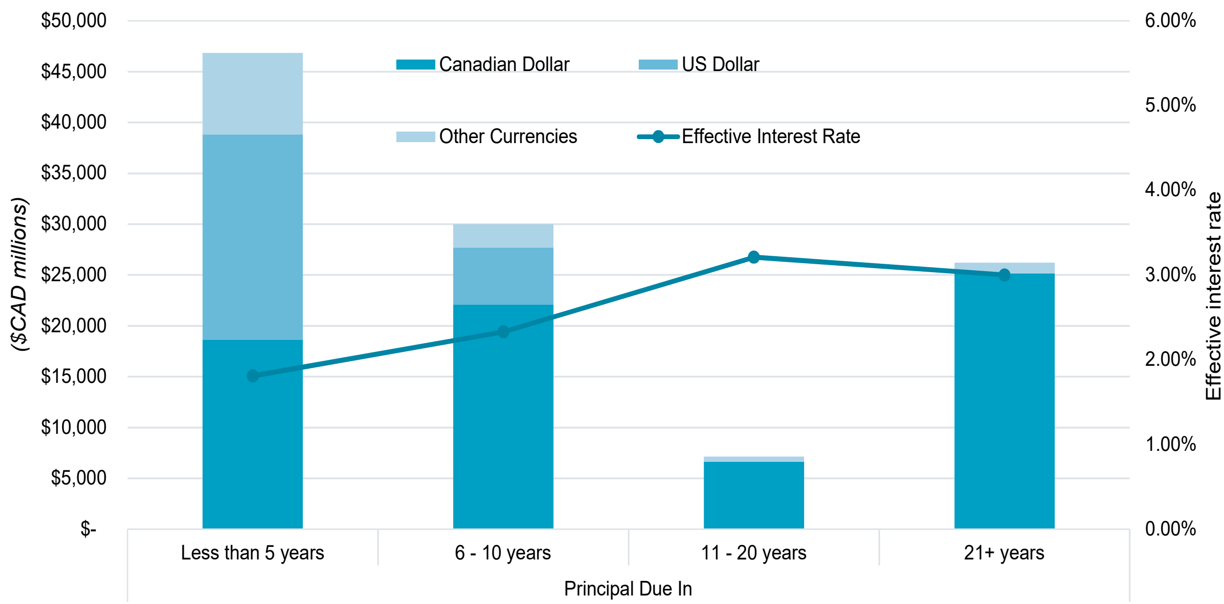


- The effective rate includes the effect of interest rate and currency rate swaps, if any.
- In December 2017, the Department entered into an agreement with Alberta Oil and Gas Orphan Abandonment and Reclamation Association (also known as the Orphan Well Association or OWA). The agreement is for a series of interest free loan advances from the Department to OWA under the authority of Section 76.2 of the Oil and Gas Conservation Act. A discount of $39 million for the present value of foregone interest will be amortized to revenue in subsequent periods over the remaining life of the loan.

Debt (unaudited)

Year ended March 31, 2021
($ millions)

Total Debt issued at face value is $110,191, with an unamortized premium of $738 and total Debt at cost of $110,929.



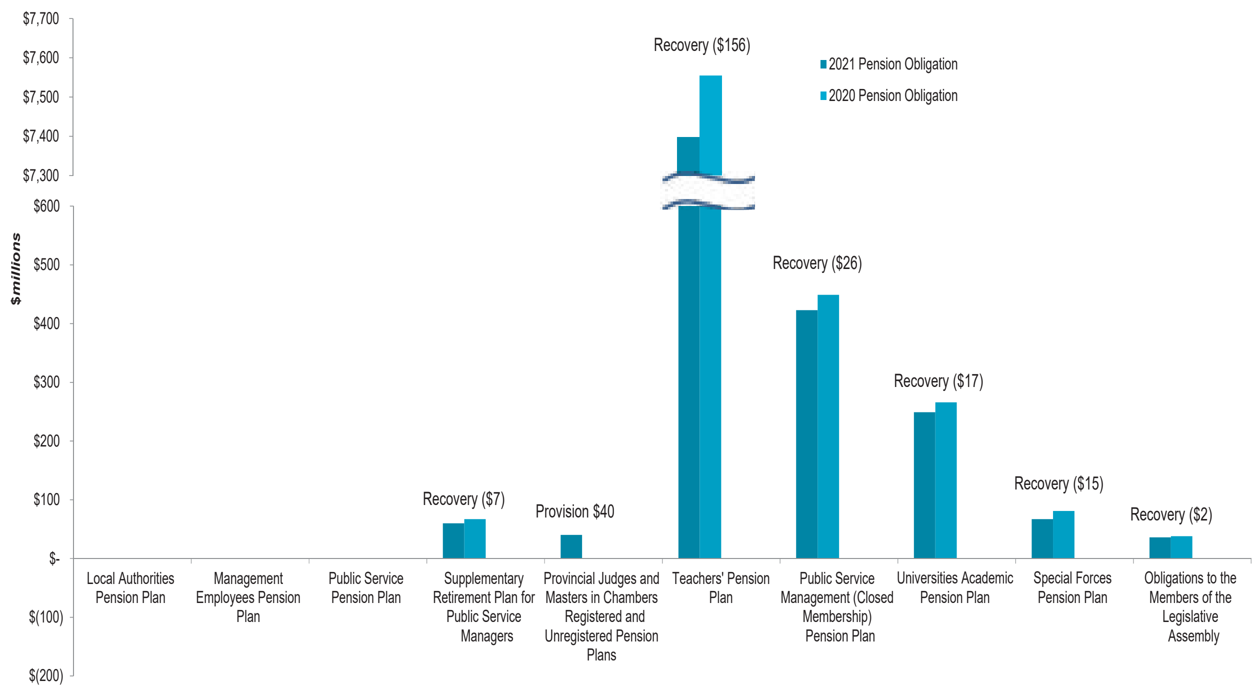
- Other currencies include the Euro, British pound sterling, Australian dollar, Swiss franc, Swedish Kronor, Norwegian Kroner and South African rand.
- Fully hedged foreign currency debt is translated into Canadian dollars at the rate of exchange established by hedging agreements, including interest rate and foreign currency derivatives.
- Interest rate derivatives allow the Ministry to exchange interest rate cash flows (fixed and floating) based on a notional amount. As Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps.
- 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.

Pension Liability (unaudited)

Year ended March 31, 2021

($ millions)

The total liability for pension obligations for 2020-21 was $8,273 million and for 2019-20 was $8,456 million with a Pension Recovery of $183 million.



- Local Authorities Pension Plan, Management Employees Pension Plan, and Public Service Pension Plans are in Surplus for 2020-21 fiscal year and therefore do not contribute to the pension liability for 2020-21.

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Regulated Funds

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Alberta Heritage Foundation For Medical Research Endowment Fund

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Heritage Foundation for Medical Research Endowment Fund (the Fund), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2021, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of the Fund are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Fund, but does not include the financial statements and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

	($ thousands) 2021	2020
Financial assets		
Investments (Note 3)	$ 2,073,159	$ 1,860,257
Receivable from sale of investments	1,692	-
	2,074,851	1,860,257
Liabilities		
Transfer payable (Note 5b)	4,950	48,030
Payable from purchase of investments	1,692	-
	6,642	48,030
Net financial assets	$ 2,068,209	$ 1,812,227
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,941,184	$ 1,848,601
Accumulated remeasurement gains (losses)	127,025	(36,374)
	$ 2,068,209	$ 1,812,227

Statement of Change in Net Financial Assets

Year Ended March 31, 2021

	($ thousands) 2021 Budget	2021 Actual	2020 Actual
Net operating surplus	$ 71,988	$ 92,583	$ 70,805
Net remeasurement gains (losses)		163,399	(250,387)
Increase (decrease) in net financial assets		**255,982**	**(179,582)**
Net financial assets, beginning of year		1,812,227	1,991,809
Net financial assets, end of year		$ 2,068,209	$ 1,812,227

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2021

	($ thousands)		
	2021		2020
	Budget	Actual	Actual
Investment income (Note 6)	$ 133,740	$ 156,342	$ 136,730
Investment expenses (Note 7)	(13,722)	(15,729)	(17,895)
Net income from operations	120,018	140,613	118,835
Transfers for health research and innovation (Note 5b)	(48,030)	(48,030)	(48,030)
Net operating surplus	**$ 71,988**	**92,583**	**70,805**
Accumulated operating surplus, beginning of year		1,848,601	1,777,796
Accumulated operating surplus, end of year		$ 1,941,184	$ 1,848,601

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2021

	($ thousands)	
	2021	2020
Unrealized gains (losses) on investments	$ 138,941	$ (228,471)
Less: Amounts reclassified to the Statement of Operations - realized losses (gains) on investments	24,458	(21,916)
Net remeasurement gains (losses)	**163,399**	**(250,387)**
Accumulated remeasurement (losses) gains, beginning of year	(36,374)	214,013
Accumulated remeasurement gains (losses), end of year	$ 127,025	$ (36,374)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2021

	($ thousands) 2021	2020
Operating transactions		
Net income from operations	$ 140,613	$ 118,835
Non-cash items included in net income	24,458	(21,916)
	165,071	96,919
(Increase) decrease in accounts receivable	(1,692)	1,862
Increase (decrease) in accounts payable	1,692	(1,799)
Cash provided by operating transactions	165,071	96,982
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	337,000	245,860
Purchase of investments	(407,147)	(346,458)
Cash applied to investing transactions	(70,147)	(100,598)
Transfers		
Transfers for health research and innovation	(48,030)	(48,030)
(Decrease) increase in transfer payable	(43,080)	48,030
Cash applied to transfers	(91,110)	-
Increase (decrease) in cash	3,814	(3,616)
Cash at beginning of year	7,593	11,209
Cash at end of year	$ 11,407	$ 7,593
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 11,407	$ 7,593

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (100%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2021
(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

The purpose of the Fund is to support a balanced long-term program of research and innovation related to health and directed to the discovery of new knowledge and the application of that knowledge to improve health and the quality of health services in Alberta. The Fund is managed with the objectives of providing an annual level of income for transfer to the Ministry of Jobs, Economy and Innovation (JEI). 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 net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Alberta Investment Management Corporation (AIMCo) and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pools and the selection of securities in the pools. AIMCo, a Crown corporation within the Ministry of Treasury Board and Finance, controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and divests its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

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

Impairment in the value of investments is assessed on a periodic basis. If an impairment deemed other-than-temporary is identified, the cost of the investment is written down to its realizable value. Any impairment losses are included in income on the statement of operations and accumulated surplus.

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

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

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Fund's investments.

NOTE 3 INVESTMENTS (in thousands)

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

Asset class	Fair Value Hierarchy (a) Level 2	Level 3	2021	2020
Interest-bearing securities				
Deposits in CCITF	$ 11,407	$ -	$ 11,407	$ 7,593
Bonds, mortgages and private debt	247,528	139,017	386,545	367,742
	258,935	139,017	397,952	375,335
Equities				
Canadian	173,787	-	173,787	137,055
Global developed	638,595	25,830	664,425	522,023
Emerging markets	103,964	-	103,964	74,253
Private	4	157,103	157,107	157,107
	916,350	182,933	1,099,283	890,438
Inflation sensitive				
Real estate	-	364,767	364,767	360,706
Infrastructure	-	163,204	163,204	183,358
Renewable resources	-	39,164	39,164	39,119
	-	567,135	567,135	583,183
Strategic, tactical and currency investments *	1,681	7,108	8,789	11,301
Total Fair Value of Investments	$ 1,176,966	$ 896,193	$ 2,073,159	$ 1,860,257

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $1,176,966 (2020: $956,317).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $896,193 (2020: $903,940).

Reconciliation of Level 3 Investments

	2021	2020
Balance, beginning of year	$ 903,940	$ 958,030
Unrealized losses	(26,996)	(55,093)
Purchases of Level 3 pooled fund units	119,366	148,808
Sale of Level 3 pooled fund units	(100,117)	(147,805)
Balance, end of year	$ 896,193	$ 903,940

NOTE 3 INVESTMENTS (in thousands) CONTINUED

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of renewable resources investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on difference between contractual foreign exchange rates and foreign exchange forward rate. Futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows

using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

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

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

In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board and Minister of Finance approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2021		Actual Asset Mix 2020	
Interest-bearing securities	15 - 45%	$ 397,952	19.2%	$ 375,335	20.2%
Equities	35 - 70%	1,099,283	53.0%	890,438	47.9%
Inflation sensitive	15 - 40%	567,135	27.4%	583,183	31.3%
Strategic, tactical and currency investments	(a)	8,789	0.4%	11,301	0.6%
		$ 2,073,159	100.0%	$ 1,860,257	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. 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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	62.7%	72.0%
Speculative Grade (BB+ or lower)	2.7%	0.7%
Unrated	34.6%	27.3%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. At March 31, 2021, the Fund's share of securities loaned under this program is $39,712 (2020: $29,944) and collateral held totals $42,422 (2020: $32,017). 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 43% (2020: 37%) of the Fund's investments, or $892,224 (2020: $700,485), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 23% (2020: 19%) and the Euro, 6% (2020: 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 (2020: 3.7%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2021:

	($ thousands)			
	2021		2020	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 482,857	$ (48,286)	$ 360,828	$ (36,083)
Euro	125,078	(12,508)	99,544	(9,954)
British pound sterling	80,172	(8,017)	52,010	(5,201)
Japanese yen	49,683	(4,968)	48,504	(4,851)
Hong Kong dollar	27,580	(2,758)	21,960	(2,196)
Other foreign currency	126,854	(12,685)	117,639	(11,764)
Total foreign currency investments	$ 892,224	$ (89,222)	$ 700,485	$ (70,049)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.0% of total investments (2020: 0.9%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.1% of total investments (2020: 6.4%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include annual transfer requirements to the Ministry of JEI and payables related to purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

f) Use of derivative financial instruments in pooled investment funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of pooled investment funds. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in pooled funds, manage asset exposure within the pooled funds, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pooled funds.

		Fund's Indirect Share	
By counterparty	Number of counterparties	2021	2020
Contracts in favourable position (current credit exposure)	76	$ 34,226	$ 220,733
Contracts in unfavourable position	10	(13,311)	(315,705)
Net fair value of derivative contracts	86	$ 20,915	$ (94,972)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $34,226 (2020: $220,733) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share	
Types of derivatives	2021	2020
Equity-based derivatives	$ 7,832	$ (68,499)
Foreign currency derivatives	11,839	(19,366)
Interest rate derivatives	667	(7,108)
Credit risk derivatives	577	1
Net fair value of derivative contracts	$ 20,915	$ (94,972)

i) Equity-based derivatives include contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

v) At March 31, 2021, deposits in futures contracts margin accounts totaled $8,638 (2020: $39,039). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $17,023 (2020: $84,833) and $nil (2020: $nil).

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	
	2021	2020
Accumulated net income from operations	$ 3,107,711	$ 2,967,098
Transfers from the Alberta Heritage Savings Trust Fund [(a)]	300,000	300,000
Transfers from the General Revenue Fund	500,000	500,000
Accumulated transfers for health research and innovation [(b)]	(1,966,527)	(1,918,497)
Accumulated surplus from operations	1,941,184	1,848,601
Accumulated remeasurement gains (losses)	127,025	(36,374)
Carrying value of net financial assets	$ 2,068,209	$ 1,812,227

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

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

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2021	2020
Interest-bearing securities	$ 32,135	$ 12,217
Equities		
Canadian	28,219	7,379
Global	101,092	33,292
Private	(7,913)	12,975
	121,398	53,646
Inflation sensitive		
Real estate	889	29,111
Infrastructure	397	26,609
Renewable resources	(1,568)	13,210
	(282)	68,930
Strategic, tactical and currency investments	3,091	1,937
	$ 156,342	$ 136,730

The investment income includes realized gains and losses from disposal of pool units totaling $(24,380) (2020: $21,806) and from directly held foreign exchange contracts totaling $(78) (2020: $110). Income distributions from the pools total $180,800 (2020: $114,814).

NOTE 6 NET INVESTMENT INCOME (in thousands) CONTINUED

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary. Other-than-temporary losses included in investment income in the statement of operations and accumulated surplus were $47,310 (2020: $9,253). Because the investments are accounted for on a fair value basis, the recording of other-than-temporary losses through the statement of operations does not affect the performance of the Fund.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2021	2020
Amount charged by AIMCo for:		
Investment costs [a]	$ 9,422	$ 9,389
Performance based fees [a]	6,258	8,457
	15,680	17,846
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 15,729	$ 17,895
(Decrease) increase in expenses	(12.1%)	32.2%
Increase (decrease) in average investments under management	1.6%	(1.0%)
Decrease in value of investments attributed to AIMCo	(0.1%)	(7.1%)
Investment expenses as a percent of dollar invested	0.8%	0.9%

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

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

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

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	2021	2020	5 years	10 years
Net return on investments [b]	16.5%	(6.5%)	7.3%	8.9%
Policy benchmark return [b]	16.6%	0.6%	8.2%	8.7%
Value (lost) added by AIMCo [c]	(0.1%)	(7.1%)	(0.9%)	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 net investment return and policy benchmark return is based on a weighted average of returns 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 assessed by management and either reflected in the current or next reporting period.

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

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

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Alberta Heritage Savings Trust Fund

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General
OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Heritage Savings Trust Fund (the Fund), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2021, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

(in millions)

	2021	2020
Financial assets		
Investments (Note 3)	$ 18,546	$ 16,702
Receivable from sale of investments	13	-
	18,559	16,702
Liabilities		
Due to the General Revenue Fund	742	374
Payable from purchase of investments	14	-
	756	374
Net financial assets	$ 17,803	$ 16,328
Net financial assets (Note 5)		
Accumulated operating surplus	$ 16,389	$ 16,243
Accumulated remeasurement gains	1,414	85
	$ 17,803	$ 16,328

Statement of Change in Net Financial Assets

Year Ended March 31, 2021

(in millions)

	2021		2020
	Budget	Actual	Actual
Net surplus retained in the Fund	$ 325	$ 146	$ 287
Net remeasurement gains (losses)		1,329	(2,205)
Increase (decrease) in net financial assets		**1,475**	**(1,918)**
Net financial assets, beginning of year		16,328	18,246
Net financial assets, end of year		$ 17,803	$ 16,328

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2021

(in millions)

	2021		2020
	Budget	Actual	Actual
Investment income (Note 6)	$ 1,178	$ 1,521	$ 1,471
Investment expenses (Note 7)	(115)	(167)	(153)
Net income from operations	1,063	1,354	1,318
Transfers to the General Revenue Fund (Note 5b)	(738)	(1,208)	(1,031)
Net surplus retained in the Fund (Note 5b)	**$ 325**	**146**	**287**
Accumulated operating surplus, beginning of year		16,243	15,956
Accumulated operating surplus, end of year		$ 16,389	$ 16,243

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2021

(in millions)

	2021	2020
Unrealized gains (losses) on investments	$ 1,307	$ (1,802)
Less: Amounts reclassified to the Statement of Operations - realized losses (gains) on investments	22	(403)
Net remeasurement gains (losses)	**1,329**	**(2,205)**
Accumulated remeasurement gains, beginning of year	85	2,290
Accumulated remeasurement gains, end of year	$ 1,414	$ 85

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2021

(in millions)

	2021	2020
Operating transactions		
Net income from operations	$ 1,354	$ 1,318
Non-cash items included in net income	22	(403)
	1,376	915
(Increase) decrease in accounts receivable	(13)	10
Increase (decrease) in accounts payable	14	(14)
Cash provided by operating transactions	1,377	911
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	2,809	3,349
Purchase of investments	(3,313)	(3,708)
Cash applied to investing transactions	(504)	(359)
Transfers		
Transfers to the General Revenue Fund	(1,208)	(1,031)
Increase in amounts due to the General Revenue Fund	368	441
Cash applied to transfers	(840)	(590)
Increase (decrease) in cash	33	(38)
Cash at beginning of year	68	106
Cash at end of year	$ 101	$ 68
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 101	$ 68

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (100%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2021

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 04/2016, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and divests its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

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

Impairment in the value of investments is assessed on a periodic basis. If an impairment deemed other-than-temporary is identified, the cost of the investment is written down to its realizable value. Any impairment losses are included in income on the statement of operations and accumulated surplus.

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING... CONTINUED

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

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

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Fund's investments.

f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

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

NOTE 3 INVESTMENTS (in millions)

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

Asset class	Fair Value Hierarchy [(a)] Level 2	Level 3	2021	2020
Interest-bearing securities				
Deposits in CCITF	$ 101	$ -	$ 101	$ 68
Bonds, mortgages and private debt	2,105	1,259	3,364	3,187
	2,206	1,259	3,465	3,255
Equities				
Canadian	1,555	-	1,555	1,225
Global developed	5,034	281	5,315	4,198
Emerging markets	833	-	833	576
Private	-	1,622	1,622	1,478
	7,422	1,903	9,325	7,477
Inflation sensitive				
Real estate	-	3,543	3,543	3,509
Infrastructure	-	1,662	1,662	1,879
Renewable resources	-	449	449	445
	-	5,654	5,654	5,833
Strategic, tactical and currency investments *	21	81	102	137
Total Fair Value of Investments	$ 9,649	$ 8,897	$ 18,546	$ 16,702

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $9,649 (2020: $7,822).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $8,897 (2020: $8,880).

NOTE 3 INVESTMENTS (in millions) CONTINUED

Reconciliation of Level 3 Investments

	2021	2020
Balance, beginning of year	$ 8,880	$ 9,839
Unrealized losses	(199)	(370)
Purchases of Level 3 pooled fund units	1,204	1,444
Sale of Level 3 pooled fund units	(988)	(2,033)
Balance, end of year	$ 8,897	$ 8,880

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

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

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

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of renewable resources investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on differences between contractual foreign exchange rates and foreign exchange forward rates. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

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

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

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

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2021		Actual Asset Mix 2020	
Interest-bearing securities	15 - 45%	$ 3,465	18.7%	$ 3,255	19.5%
Equities	35 - 70%	9,325	50.3%	7,477	44.8%
Inflation sensitive	15 - 40%	5,654	30.5%	5,833	34.9%
Strategic, tactical and currency investments	(a)	102	0.5%	137	0.8%
		$ 18,546	100.0%	$ 16,702	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Fund.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

a) Credit Risk

i) Debt securities

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

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	61.1%	70.2%
Speculative Grade (BB+ or lower)	2.7%	0.7%
Unrated	36.2%	29.1%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Fund's share of securities loaned under this program is $322 (2020: $241) and collateral held totals $344 (2020: $258). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 39% (2020: 35%) of the Fund's investments, or $7,273 (2020: $5,900), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 21% (2020: 18%) and the Euro, 6% (2020: 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 3.9% of total investments (2020: 3.5%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2021:

	2021		2020	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,881	$ (388)	$ 3,020	$ (302)
Euro	1,048	(105)	843	(84)
British pound sterling	696	(69)	498	(50)
Japanese yen	397	(40)	393	(40)
Hong Kong dollar	220	(22)	173	(17)
Other foreign currency	1,031	(103)	973	(97)
Total foreign currency investments	$ 7,273	$ (727)	$ 5,900	$ (590)

[(a)] Information on specific currencies is disclosed when the current period fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.0% of total investments (2020: 0.9%).

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.9% of total investments (2020: 6.2%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables related to purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost-effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	2021	2020
Contracts in net favourable position (current credit exposure)	75	$ 286	$ 1,773
Contracts in net unfavourable position	11	(107)	(2,571)
Net fair value of derivative contracts	86	$ 179	$ (798)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $286 (2020: $1,773) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share	
Types of derivatives used in pools	2021	2020
Equity-based derivatives	$ 65	$ (559)
Foreign currency derivatives	103	(180)
Interest rate derivatives	6	(59)
Credit risk derivatives	5	-
Net fair value of derivative contracts	$ 179	$ (798)

i) Equity-based derivatives include equity swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

v) At March 31, 2021, deposits in futures contracts margin accounts totaled $71 (2020: $315). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $140 (2020: $702) and $nil (2020: $nil).

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	
	2021	**2020**
Accumulated net income	$ 46,174	$ 44,820
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
Amounts retained in (transferred from) the Fund		
Section 8 transfers [(b)]		
Income	(46,379)	(45,025)
Amount Retained in the Fund	4,368	4,222
	(42,011)	(40,803)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Other Statutory Transfers [(d)]	(255)	(255)
	(45,752)	(44,544)
Accumulated surplus from operations	16,389	16,243
Accumulated remeasurement gains	1,414	85
Carrying value of net financial assets	$ 17,803	$ 16,328

(a) The Access to the Future Fund was disestablished in December 2019 and eliminated the related notional account within the Fund. The initial $1,000 funded in 2005-06 and 2006-07 will remain in the Fund, no longer allocated for Advanced Education.

(b) During the year, the Fund earned net income of $1,354, of which $146 was retained in the Fund and $1,208 is payable to the GRF. Section 8 of the Act states that the net income of the Heritage Fund, less any amount retained in the Fund, in accordance with section 11 of the Act, shall be transferred to the GRF in a manner determined by the President of Treasury Board and Minister of Finance. The amount to be retained in the Fund for inflation proofing is determined by multiplying the accumulated operating surplus of the Fund from the prior fiscal year end by the estimated percentage increase in the Alberta Consumer Price Index (Alberta CPI) for the year. In accordance with section 11(2), if the Alberta CPI is a negative number, that negative number shall be treated as if it were zero.

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

(d) Transfers of $200 to the Alberta Heritage Scholarship Fund, $3 to the Agriculture and Food Innovation Account, and $52 to the Access to the Future Fund were made from the Fund in 2015.

NOTE 6 INVESTMENT INCOME (in millions)

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

	2021	2020
Interest-bearing securities	$ 285	$ 126
Equities		
Canadian	260	75
Global	867	282
Private	53	98
	1,180	455
Inflation sensitive		
Real estate	6	462
Infrastructure	37	234
Renewable resources	(25)	176
	18	872
Strategic, tactical and currency investments	38	18
	$ 1,521	$ 1,471

The investment income includes realized gains and losses from disposal of pool units totalling ($25) (2020: $403) and from directly held foreign exchange contracts totalling $3 (2020: $nil). Income distributions from the pools total $1,543 (2020: $1,068).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary. Other-than-temporary losses included in investment income in the statement of operations and accumulated surplus were $371 (2020: $95). Because the investments are accounted for on a fair value basis, the recording of other-than-temporary losses through the statement of operations does not affect the performance of the fund

NOTE 7 INVESTMENT EXPENSES (in millions)

	2021	2020
Amount charged by AIMCo for: [(a)]		
Investment costs	$ 86	$ 86
Performance based fees	81	67
Total investment expenses	$ 167	$ 153
Increase in expenses	9.2%	14.2%
Increase (decrease) in average investments under management	1.0%	(2.6%)
Decrease in value of investments attributed to AIMCo	0.6%	(5.9%)
Investment expense as a percent of dollar invested	0.9%	0.9%

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

Includes $114 thousand (2020: $114 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

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

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	**2021**	**2020**	**5 years** [d]	**10 years**
Net return on investments [b]	16.1%	(5.1%)	7.4%	8.9%
Policy benchmark return [b]	15.5%	0.8%	8.0%	8.6%
Value (lost) added by AIMCo [c]	0.6%	(5.9%)	(0.6%)	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 net investment return and policy benchmark return is based on a weighted average of returns 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 assessed by management and either reflected in the current or next reporting period.

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

(d) In accordance with the SIP&G, over a five-year period, it is expected that the policy portfolio will earn an average return of 4.5%, adjusted for inflation and value added by investment manager of 1.0%. The annualized five-year rolling average CPI (plus 4.5%) is 6.1%, bringing the five-year annualized Portfolio Return Expectation to 7.1%.

NOTE 9 FINANCIAL STATEMENTS

Quarterly and annual financial statements are prepared by the Department of Treasury Board and Finance and are approved by the Department's Senior Financial Officer and Deputy Minister. The statements report the activities and financial performance of the Fund for the period and are provided to the Standing Committee on the Alberta Heritage Savings Trust Fund in accordance with section 15 and 16 of the Act. Unaudited interim financial statements for the first three quarters of each fiscal year are made available to the public by the President of Treasury Board and Minister of Finance within two months following each quarter-end. Annual audited financial statements of the Fund are included in the annual report of the Ministry of Treasury Board and Finance.

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Alberta Heritage Scholarship Fund

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Heritage Scholarship Fund (the Fund), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2021, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of the Fund are included in the *Annual Report of the Ministry of Treasury Board and Finance.* The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Fund, but does not include the financial statements of the Fund and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up

to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

	2021 ($ thousands)	2020 ($ thousands)
Financial assets		
Investments (Note 3)	$ 1,432,436	$ 1,262,731
Accounts receivable	1,196	-
	1,433,632	1,262,731
Liabilities		
Accounts payable	1,173	173
Net Financial Assets	$ 1,432,459	$ 1,262,558
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,360,173	$ 1,308,114
Accumulated remeasurement gains (losses)	72,286	(45,556)
	$ 1,432,459	$ 1,262,558

Statement of Change in Net Financial Assets

Year Ended March 31, 2021

	2021 Budget ($ thousands)	2021 Actual	2020 Actual
Net operating surplus	$ 13,618	$ 52,059	$ 26,993
Net remeasurement gains (losses)		117,842	(169,464)
Increase (decrease) in net financial assets		**169,901**	**(142,471)**
Net financial assets, beginning of year		1,262,558	1,405,029
Net financial assets, end of year		$ 1,432,459	$ 1,262,558

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2021

	($ thousands)		
	2021		2020
	Budget	Actual	Actual
Investment income (Note 6)	$ 78,494	$ 114,567	$ 89,230
Investment expenses (Note 7)	(9,836)	(11,626)	(12,205)
Net income from operations	68,658	102,941	77,025
Other contributions	40	12	20
Transfers for Scholarships to the Ministries of:			
Advanced Education	(55,000)	(50,844)	(49,997)
Culture, Multiculturalism and Status of Women	(80)	(50)	(55)
	(55,080)	(50,894)	(50,052)
Net operating surplus	**$ 13,618**	**52,059**	**26,993**
Accumulated operating surplus, beginning of year		1,308,114	1,281,121
Accumulated operating surplus, end of year		$ 1,360,173	$ 1,308,114

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2021

	($ thousands)	
	2021	2020
Unrealized gains (losses) on investments	$ 114,817	$ (158,912)
Less: Amounts reclassified to the Statement of Operations		
- realized losses (gains) on investments	3,025	(10,552)
Net remeasurement gains (losses)	**117,842**	**(169,464)**
Accumulated remeasurement (losses) gains, beginning of year	(45,556)	123,908
Accumulated remeasurement gains (losses), end of year	$ 72,286	$ (45,556)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2021

	($ thousands) 2021	2020
Operating transactions		
Net income from operations	$ 102,941	$ 77,025
Non-cash items included in net income	3,025	(10,552)
	105,966	66,473
(Increase) decrease in accounts receivable	(1,196)	2,051
Increase (decrease) in accounts payable	1,000	(2,255)
Cash provided by operating transactions	105,770	66,269
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	218,667	207,336
Purchase of investments	(272,388)	(227,166)
Cash applied to investing transactions	(53,721)	(19,830)
Transfers		
Other contributions	12	20
Transfers for Scholarships	(50,894)	(50,052)
Cash applied to transfers	(50,882)	(50,032)
Increase (decrease) in cash	1,167	(3,593)
Cash at beginning of year	7,273	10,866
Cash at end of year	$ 8,440	$ 7,273
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 8,440	$ 7,273

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (100%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2021

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Alberta Investment Management Corporation (AIMCo) and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pools and the selection of securities in the pools. AIMCo, a Crown corporation within the Ministry of Treasury Board and Finance, controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

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

Impairment in the value of investments is assessed on a periodic basis. If an impairment deemed other-than-temporary is identified, the cost of the investment is written down to its realizable value. Any impairment losses are included in income on the statement of operations and accumulated surplus.

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

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

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Fund’s investments.

NOTE 3 INVESTMENTS (in thousands)

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

Asset class	Fair Value Hierarchy (a) Level 2	Level 3	2021	2020
Interest-bearing securities				
Deposits in CCITF	$ 8,440	$ -	$ 8,440	$ 7,273
Bonds, mortgages and private debt	176,747	96,595	273,342	252,731
	185,187	96,595	281,782	260,004
Equities				
Canadian	120,202	-	120,202	92,768
Global developed	435,953	18,142	454,095	353,399
Emerging markets	72,110	-	72,110	50,377
Private	3	121,718	121,721	109,121
	628,268	139,860	768,128	605,665
Inflation sensitive				
Real estate	-	242,480	242,480	240,443
Infrastructure	-	121,752	121,752	136,898
Renewable resources	-	12,641	12,641	12,922
	-	376,873	376,873	390,263
Strategic, tactical and currency investments*	1,227	4,426	5,653	6,799
Total Fair Value of Investments	$ 814,682	$ 617,754	$ 1,432,436	$ 1,262,731

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $814,682 (2020: $647,731).

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $617,754 (2020: $615,000).

Reconciliation of Level 3 Fair Value Measurements

	2021	2020
Balance, beginning of year	$ 615,000	$ 640,647
Unrealized losses	(11,350)	(38,215)
Purchases of Level 3 pooled fund units	84,903	107,128
Sale of Level 3 pooled fund units	(70,799)	(94,560)
Balance, end of year	$ 617,754	$ 615,000

NOTE 3 INVESTMENTS (in thousands) CONTINUED

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of renewable resources investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on difference between contractual foreign exchange rates and foreign exchange forward rate. Futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows

using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

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

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

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

Asset Class	Target Asset Policy	Actual Asset Mix 2021		Actual Asset Mix 2020	
Interest-bearing securities	15 - 45%	$ 281,782	19.7%	$ 260,004	20.6%
Equities	35 - 70%	768,128	53.6%	605,665	48.0%
Inflation sensitive	15 - 40%	376,873	26.3%	390,263	30.9%
Strategic, tactical and currency investments	(a)	5,653	0.4%	6,799	0.5%
		$ 1,432,436	100.0%	$ 1,262,731	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. 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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	63.2%	70.9%
Speculative Grade (BB+ or lower)	2.7%	0.7%
Unrated	34.1%	28.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Fund's share of securities loaned under this program is $27,254 (2020: $20,285) and collateral held totals $29,113 (2020: $21,688). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 42% (2020: 36%) of the Fund's investments, or $596,769 (2020: $456,504), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 23% (2020: 19%) and the Euro, 6% (2020: 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 (2020: 3.6%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2021:

	($ thousands)			
	2021		2020	
Currency [(a)]	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	$ 326,013	$ (32,601)	$ 235,618	$ (23,562)
Euro	80,202	(8,020)	63,086	(6,309)
British pound sterling	50,469	(5,047)	32,817	(3,282)
Japanese yen	33,896	(3,390)	31,141	(3,114)
Hong Kong dollar	19,059	(1,906)	14,896	(1,489)
Other foreign currency	87,130	(8,713)	78,946	(7,894)
Total foreign currency investments	$ 596,769	$ (59,677)	$ 456,504	$ (45,650)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2020: 0.9%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.0% of total investments (2020: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include annual scholarships and payables related to purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Fund's Indirect Share 2021	Fund's Indirect Share 2020
Contracts in favourable position (current credit exposure)	76	$ 24,102	$ 148,918
Contracts in unfavourable position	10	(9,131)	(214,734)
Net fair value of derivative contracts	86	$ 14,971	$ (65,816)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $24,102 (2020: $148,918) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives	Fund's Indirect Share 2021	Fund's Indirect Share 2020
Equity-based derivatives	$ 5,378	$ (46,292)
Foreign currency derivatives	8,719	(14,739)
Interest rate derivatives	481	(4,787)
Credit risk derivatives	393	2
Net fair value of derivative contracts	$ 14,971	$ (65,816)

i) Equity-based derivatives include contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

v) At March 31, 2021, deposits in futures contracts margin accounts totaled $5,981 (2020: $26,379). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $11,797 (2020: $57,799) and $nil (2020: $nil).

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	
	2021	**2020**
Accumulated net income from operations	$ 1,479,285	$ 1,376,344
Transfers from the Alberta Heritage Savings Trust Fund:		
Endowment [a]	100,000	100,000
Savings Management Act [b]	200,000	200,000
Transfers from the General Revenue Fund [c]	497,000	497,000
Other contributions	21,031	21,019
Accumulated scholarship payments [a]	(937,143)	(886,249)
Accumulated surplus from operations	1,360,173	1,308,114
Accumulated net remeasurement gains (losses)	72,286	(45,556)
Carrying value of net financial assets	$ 1,432,459	$ 1,262,558

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

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

(c) In accordance with section 2.1 of the Act, transfers from the GRF include $270 million on account of the *Access to the Future Act*. Section 7 of the *Access to the Future Act* states that the Alberta Heritage Scholarship Fund shall be increased by $1 billion, in amounts considered appropriate by the President of Treasury Board and Minister of Finance. The *Access to the Future Act* was repealed on December 5, 2019.

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2021	**2020**
Interest-bearing securities	$ 22,528	$ 9,564
Equities		
Canadian	19,608	5,618
Global	71,001	24,886
Private	(1,717)	8,035
	88,892	38,539
Inflation sensitive		
Real estate	306	18,136
Infrastructure	800	19,658
Renewable resources	107	2,095
	1,213	39,889
Strategic, tactical and currency investments	1,934	1,238
	$ 114,567	$ 89,230

NOTE 6 INVESTMENT INCOME (in thousands) CONTINUED

The investment income includes realized gains and losses from disposal of pool units totalling $(3,029) (2020: $10,450) and from directly held foreign exchange contracts totalling $4 (2020: $102). Income distributions from the pools total $117,592 (2020: $78,677).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary. Other-than-temporary losses included in investment income in the statement of operations and accumulated surplus were $31,620 (2020: $6,059). Because the investments are accounted for on a fair value basis, the recording of other-than-temporary losses through the statement of operations does not affect the performance of the Fund.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2021	2020
Amount charged by AIMCo for:		
Investment costs [a]	$ 6,644	$ 6,518
Performance based fees [a]	4,933	5,638
	11,577	12,156
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 11,626	$ 12,205
(Decrease) increase in expenses	(4.7%)	35.4%
Increase (decrease) in average investments under management	0.5%	(3.2%)
Increase (decrease) in value of investments attributed to AIMCo	0.9%	(7.2%)
Investment expenses as a percent of dollar invested	0.9%	0.9%

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

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

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

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	2021	2020	5 years	10 years
Net return on investments [b]	17.4%	(6.8%)	7.3%	8.9%
Policy benchmark return [b]	16.5%	0.4%	8.2%	8.7%
Value added (lost) by AIMCo[c]	0.9%	(7.2%)	(0.9%)	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 net investment return and policy benchmark return is based on a weighted average of returns 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 assessed by management and either reflected in the current or next reporting period.

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

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 2(5) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

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Alberta Heritage Science And Engineering Research Endowment Fund

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General
OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Heritage Science and Engineering Research Endowment Fund (the Fund), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2021, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of the Fund are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Fund, but does not include the financial statements of the Fund and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up

to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

(in thousands)

	2021	2020
Financial assets		
Investments (Note 3)	$ 1,237,363	$ 1,121,967
Receivable from sale of investments	2,321	-
	1,239,684	1,121,967
Liabilities		
Due to Jobs, Economy and Innovation	-	36,500
Payable from purchase of investments	2,321	-
	2,321	36,500
Net Financial Assets	$ 1,237,363	$ 1,085,467
Net financial assets (Note 5)		
Accumulated surplus from operations	$ 1,160,946	$ 1,110,889
Accumulated remeasurement gains (losses)	76,417	(25,422)
	$ 1,237,363	$ 1,085,467

Statement of Change in Net Financial Assets

Year Ended March 31, 2021

(in thousands)

	2021		2020
	Budget	Actual	Actual
Net operating surplus	$ 26,969	$ 50,057	$ 34,731
Net remeasurement gains (losses)		101,839	(150,143)
Increase (decrease) in net financial assets		**151,896**	**(115,412)**
Net financial assets, beginning of year		1,085,467	1,200,879
Net financial assets, end of year		$ 1,237,363	$ 1,085,467

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2021

(in thousands)

	2021		2020
	Budget	Actual	Actual
Investment income (Note 6)	$ 72,151	$ 95,941	$ 81,775
Investment expenses (Note 7)	(8,682)	(9,384)	(10,544)
Net income from operations	63,469	86,557	71,231
Transfers for research and innovation (Note 5b)	(36,500)	(36,500)	(36,500)
Net operating surplus	**$ 26,969**	**50,057**	**34,731**
Accumulated operating surplus, beginning of year		1,110,889	1,076,158
Accumulated operating surplus, end of year		$ 1,160,946	$ 1,110,889

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2021

(in thousands)

	2021	2020
Unrealized gains (losses) on investments	$ 98,443	$ (137,718)
Less: Amounts reclassified to the Statement of Operations - realized losses (gains) on investments	3,396	(12,425)
Net remeasurement gains (losses)	**101,839**	**(150,143)**
Accumulated remeasurement (losses) gains, beginning of year	(25,422)	124,721
Accumulated remeasurement gains (losses), end of year	$ 76,417	$ (25,422)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2021

(in thousands)

	2021	2020
Operating transactions		
Net income from operations	$ 86,557	$ 71,231
Non-cash items included in net income	3,396	(12,425)
	89,953	58,806
(Increase) decrease in accounts receivable	(2,321)	1,133
Increase (decrease) in accounts payable	2,321	(1,095)
Cash provided by operating transactions	89,953	58,844
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	222,800	142,396
Purchase of investments	(237,534)	(203,391)
Cash applied to investing transactions	(14,734)	(60,995)
Transfers		
Transfers for research and innovation	(36,500)	(36,500)
(Decrease) increase in amounts due to Jobs, Economy and Innovation	(36,500)	36,500
Cash applied to transfers	(73,000)	-
Increase (decrease) in cash	2,219	(2,151)
Cash at beginning of year	4,605	6,756
Cash at end of year	$ 6,824	$ 4,605
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 6,824	$ 4,605

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (100%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2021

(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 the Ministry of Jobs, Economy and Innovation. 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 net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

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

Impairment in the value of investments is assessed on a periodic basis. If an impairment deemed other-than-temporary is identified, the cost of the investment is written down to its realizable value. Any impairment losses are included in income on the statement of operations and accumulated surplus.

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

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

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Fund’s investments.

NOTE 3 INVESTMENTS (in thousands)

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

Asset class	Fair Value Hierarchy (a) Level 2	Level 3	2021	2020
Interest-bearing securities				
Deposits in CCITF	$ 6,824	$ -	$ 6,824	$ 4,605
Bonds, mortgages and private debt	150,179	83,801	233,980	226,619
	157,003	83,801	240,804	231,224
Equities				
Canadian	103,704	-	103,704	82,929
Global developed	375,426	15,102	390,528	315,647
Emerging markets	61,928	-	61,928	44,638
Private	3	102,656	102,659	98,765
	541,061	117,758	658,819	541,979
Inflation sensitive				
Real estate	-	212,504	212,504	210,312
Infrastructure	-	96,012	96,012	107,522
Renewable resources	-	24,082	24,082	24,076
	-	332,598	332,598	341,910
Strategic, tactical and currency investments *	1,009	4,133	5,142	6,854
Total Fair Value of Investments	$ 699,073	$ 538,290	$ 1,237,363	$ 1,121,967

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $699,073 (2020: $583,393).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $538,290 (2020: $538,574).

Reconciliation of Level 3 Investments

	2021	2020
Balance, beginning of year	$ 538,574	$ 565,207
Unrealized losses	(13,112)	(31,888)
Purchases of Level 3 pooled fund units	73,281	92,052
Sale of Level 3 pooled fund units	(60,453)	(86,797)
Balance, end of year	$ 538,290	$ 538,574

NOTE 3 INVESTMENTS (in thousands) CONTINUED

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of renewable resources investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on differences between contractual foreign exchange rates and foreign exchange forward rates. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

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

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

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

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2021		Actual Asset Mix 2020	
Interest-bearing securities	15 - 45%	$ 240,804	19.5%	$ 231,224	20.6%
Equities	35 - 70%	658,819	53.2%	541,979	48.3%
Inflation sensitive	15 - 40%	332,598	26.9%	341,910	30.5%
Strategic, tactical and currency investments	(a)	5,142	0.4%	6,854	0.6%
		$1,237,363	100.0%	$1,121,967	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Fund.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

a) Credit Risk

i) Debt securities

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

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	62.9%	72.6%
Speculative Grade (BB+ or lower)	2.7%	0.7%
Unrated	34.4%	26.7%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Fund's share of securities loaned under this program is $23,452 (2020: $18,017) and collateral held totals $25,053 (2020: $19,266). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 42% (2020: 37%) of the Fund's investments, or $519,444 (2020: $418,614), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 23% (2020: 19%) and the Euro, 6% (2020: 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 (2020: 3.7%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2021:

	2021		2020	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 280,383	$ (28,038)	$ 217,594	$ (21,759)
Euro	72,195	(7,219)	58,106	(5,811)
British pound sterling	46,077	(4,608)	29,623	(2,962)
Japanese yen	29,190	(2,919)	29,302	(2,930)
Hong Kong dollar	16,374	(1,637)	13,252	(1,325)
Other foreign currency	75,225	(7,523)	70,737	(7,074)
Total foreign currency investments	$ 519,444	$ (51,944)	$ 418,614	$ (41,861)

[a] Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2020: 1.0%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.0% of total investments (2020: 6.4%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) 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 units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include transfers to the Ministry of Jobs, Economy and Innovation and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost-effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	2021	2020
Contracts in net favourable position (current credit exposure)	76	$ 20,510	$ 133,797
Contracts in net unfavourable position	10	(7,811)	(191,217)
Net fair value of derivative contracts	86	$ 12,699	$ (57,420)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $20,510 (2020: $133,797) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share	
Types of derivatives	2021	2020
Equity-based derivatives	$ 4,597	$ (41,379)
Foreign currency derivatives	7,356	(11,627)
Interest rate derivatives	407	(4,415)
Credit risk derivatives	339	1
Net fair value of derivative contracts	$ 12,699	$ (57,420)

i) Equity-based derivatives include equity swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.
ii) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
iii) Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.
iv) Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.
v) At March 31, 2021, deposits in futures contracts margin accounts totaled $5,136 (2020: $23,654). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $10,120 (2020: $51,502) and $nil (2020: $nil).

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	
	2021	**2020**
Accumulated net income from operations	$ 1,016,602	$ 930,045
Transfers from the General Revenue Fund [(a)]	721,430	721,430
Accumulated transfers for research and innovation [(b)]	(577,086)	(540,586)
Accumulated surplus from operations	1,160,946	1,110,889
Accumulated net remeasurement gains (losses)	76,417	(25,422)
Carrying value of net financial assets	$ 1,237,363	$ 1,085,467

(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 President of Treasury Board, Minister of Finance.

(b) In accordance with section 12 of the *Alberta Research and Innovation Act* (the Act), the President of Treasury Board, Minister of Finance must, at the request of the Minister of Jobs, Economy and Innovation (JEI), pay from the Endowment Fund to JEI, money that, in the opinion of the Alberta Research and Innovation Authority is required by JEI for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to JEI. Payments to JEI 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.

	2021
Spending limit for year ended March 31, 2021	$ 110,214
Transfers to JEI during 2020-21	(36,500)
Accumulated unused spending limit at March 31, 2021	73,714
4.5% of average market value on March 31, 2019-21	53,403
Spending limit for year ended March 31, 2022	$ 127,116

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2021	2020
Interest-bearing securities	$ 20,226	$ 7,409
Equities		
Canadian	17,052	4,479
Global	60,370	21,038
Private	(3,682)	8,007
	73,740	33,524
Inflation sensitive		
Real estate	446	16,667
Infrastructure	416	15,282
Renewable resources	(917)	7,957
	(55)	39,906
Strategic, tactical and currency investments	2,030	936
	$ 95,941	$ 81,775

The investment income includes realized gains and losses from disposal of pool units totalling ($3,584) (2020: $12,323) and from directly held currency foreign exchange contracts totalling $189 (2020: $102). Income distributions from the pools total $99,336 (2020: $69,350).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary. Other-than-temporary losses included in investment income in the statement of operations and accumulated surplus were $27,999 (2020: $5,298). Because the investments are accounted for on a fair value basis, the recording of other-than-temporary losses through the statement of operations does not affect the performance of the fund.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2021	2020
Amounts charged by AIMCo for:(a)		
Investment Costs(b)	$ 5,726	$ 5,675
Performance based fees(b)	3,609	4,820
	9,335	10,495
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 9,384	$ 10,544
(Decrease) increase in expenses	(11.0%)	31.2%
Increase (decrease) in average investments under management	1.6%	(1.1%)
Decrease in value of investments attributable to AIMCo	0.5%	(6.8%)
Investment expenses as a percent of dollar invested	0.8%	0.9%

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

(b) Internal performance fees previously included in investment costs have now been reclassed to performance based fees.

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)]	**2021**	**2020**	**5 years**	**10 years**
Net return (loss) on investments [(b)]	17.0%	(6.4%)	7.3%	9.0%
Policy benchmark return [(b)]	16.5%	0.4%	8.2%	8.6%
Value (lost) added by investment manager [(c)]	0.5%	(6.8%)	(0.9%)	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 net investment return and policy benchmark return is based on a weighted average of returns 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 assessed by management and either reflected in the current or next reporting period.

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

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

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Alberta Risk Management Fund

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Risk Management Fund (the Fund), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2021, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of the Fund are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Fund, but does not include the financial statements of the Fund and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up

to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

	2021 ($ thousands)	2020 ($ thousands)
Financial Assets		
Cash and cash equivalents (Note 4)	$ 6,696	$ 6,866
Investments (Note 4)	74,850	72,640
Receivable from Province of Alberta	191	33
Accrued recoveries (Note 6)	13	25
	81,750	79,564
Liabilities		
Accounts payable (Note 7)	1,782	730
Liability for accrued claims (Note 8)	73,434	70,292
	75,216	71,022
Net Financial Assets	6,534	8,542
Net Assets		
Accumulated surplus from operations	7,627	10,002
Accumulated remeasurement losses	(1,093)	(1,460)
	$ 6,534	$ 8,542

Contractual obligations (Note 10)

The accompanying notes are part of these financial statements.

Statement of Change in Net Financial Assets

Year ended March 31, 2021

	2021 Budget ($ thousands)	2021 Actual ($ thousands)	2020 Actual ($ thousands)
Annual (deficit) surplus	$ (2,776)	$ (2,375)	$ 1,013
Net remeasurement gains		367	90
(Decrease) increase in Net Financial Assets		(2,008)	1,103
Net Financial Assets, beginning of year		8,542	7,439
Net Financial Assets, end of Year		$ 6,534	$ 8,542

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2021

	2021 Budget	2021 Actual	2020 Actual
	($ thousands)		
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 16,931	$ 16,372	$ 16,973
Other entities	830	1,520	926
Subrogation and salvage	300	703	2,105
Recoveries	-	-	50
Investment income	1,750	1,974	2,160
	19,811	20,569	22,214
Expenses			
Insurance claims (Note 9)	15,471	15,105	14,212
Insurance premiums to insurers	4,470	4,712	4,283
Administration	1,751	1,778	1,822
Investment expenses	-	55	44
Other services	895	1,294	840
	22,587	22,944	21,201
Annual (deficit) surplus	$ (2,776)	(2,375)	1,013
Accumulated Surplus at beginning of year		10,002	8,989
Accumulated surplus at end of year		$ 7,627	$ 10,002

The accompanying notes are part of these financial statements.

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2021

	2021	2020
	($ thousands)	
Unrealized gains on investments	$ 367	$ 90
Accumulated remeasurement losses, beginning of year	(1,460)	(1,550)
Accumulated remeasurement losses, end of year	$ (1,093)	$ (1,460)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2021

	($ thousands) 2021	2020
Operating Transactions		
Annual (deficit) surplus	$ (2,375)	$ 1,013
Decrease (Increase) in accrued recoveries	12	(7)
Increase in receivables from Province of Alberta	(158)	(22)
Increase (Decrease) in accounts payables	1,052	(500)
Increase in liabilities for accrued claims	3,142	1,067
Cash provided by operating transactions	1,673	1,551
Investing Transactions		
Purchase of investments	(1,843)	(1,888)
Cash (applied to) provided by investing transactions	(1,843)	(1,888)
Decrease in Cash and Cash Equivalents	(170)	(337)
Cash and Cash Equivalents, Beginning of Year	6,866	7,203
Cash and Cash Equivalents, End of Year	$ 6,696	$ 6,866
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 4)	$ 6,696	$ 6,866

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2021

(All dollar amounts in thousands, unless otherwise stated)

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

The Alberta Risk Management Fund (the Fund) operates under the authority of the *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000.

The Fund provides risk management and insurance services to government departments, funds and agencies, members of the Legislative Assembly and others by assuming general and automobile liability and the risk of losses due to automobile physical damage, property damage and crime in exchange for premiums related to the level of risk assumed.

In the ordinary course of business, the Fund insures certain risks for the purpose of limiting its exposure to large or unusual risks. As such, the Fund enters into excess of loss contracts with only the most credit-worthy insurance companies and is required to pay for all losses up to certain predetermined amounts. The insurance companies compensate the Fund for any losses above the agreed predetermined amounts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

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

a) The net debt model has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Fund's financial assets and liabilities.

   A (net debt) net financial assets balance indicates the extent of the Fund's future operating revenue requirements to settle its financial assets and liabilities.

b) Financial Assets are the Fund's financial claims on external organizations as well as cash and investments.

c) The valuation of the liability for accrued claims is accounted for based on an actuarial assessment of the Fund's claim experience using assumptions on an actuarial present value basis to provide an estimate of the required claims reserve. The valuation is completed on an annual basis using the best data and assumptions at the time.

d) 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 8b).
Liability for accrued claims, recorded as $73.4 million (2020: $70.3 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 $95.1 million as at March 31, 2021 or $21.7 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 8b).
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.

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

f) Impairment in the value of investments is assessed on a periodic basis. If an impairment deemed other-than-temporary is identified, the cost of the investment is written down to its realizable value. Any impairment losses are included in income on the statement of operations and accumulated surplus.

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

h) The Fund's investment portfolio is recorded at fair value (see Note 4). Investments are recognized on a trade date basis.

i) Investment expenses include all amounts charged by the AIMCo. Investment expenses are recognized on an accrual basis. Transaction costs are expensed as they are incurred.

j) Accumulated remeasurement gains and losses primarily represent the excess or shortfall of the fair value of the pool units at period end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. When investments are disposed of (derecognized), any accumulated unrealized loss associated with the investment becomes realized and is included in the net income on the statement of operations and accumulated surplus.

NOTE 3 FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has issued the following accounting standards:

PS 3280 Asset Retirement Obligations (effective April 1, 2022)
Effective April 1, 2022, this standard provided guidance on how to account for and report liabilities for retirement of tangible capital assets.

NOTE 3 FUTURE ACCOUNTING CHANGES CONTINUED

PS3400 Revenue (effective April 1, 2023)
This standard provides guidance on how to account for and report on revenue, and specifically, it differentiates between revenue arising from exchange and non-exchange transactions.

The Fund has not yet adopted these standards. Management is currently assessing the impact of these standards on the financial statements.

NOTE 4 CASH, CASH EQUIVALENTS AND INVESTMENTS

	($ thousands) 2021	2020
Cash and Cash Equivalents		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 6,696	$ 6,866
Investments		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 7	$ 7
General Revenue Short-Term Bond Fund [(b)]	74,843	72,633
Total investments [(c) (d)]	$ 74,850	$ 72,640

a) Consolidated Cash Investment Trust Fund (CCITF): The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositor's capital. The CCITF is a pool that is primarily comprised of short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2021, securities held by the CCITF have a time-weighted return of 0.4% (2020: 1.9%).

b) Valuation of Financial Instruments: 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.

c) Statement of Investment Policies and Goals (SIP&G): The SIP&G establishes the framework set by the President of Treasury Board, Minister of Finance for the investments of the Fund, including the responsibilities of the Fund's investment manager, AIMCo. According to the SIP&G, amounts invested in the Fund that are not expected to be shortly reallocated from the Fund are to be invested in the actively managed short-term bonds. The fair value of pool units held in the General Revenue Short-Term Bond Pool (the GRST pool) is based on the Fund's interest in the asset value of the pool. The GRST pool has a market-based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the GRST pool.

d) Fair Value Hierarchy: Investments are classified as Level 2 for purposes of the fair value hierarchy. The fair value hierarchy classifies the quality and reliability of information used to estimate the fair value of investments into three levels with level 1 being the highest quality and reliability. For the level 2 classification, the fair value is estimated using valuation techniques that use market-observable inputs other than quoted market prices.

NOTE 5 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying investments held in the GRST pool. These financial risks include credit risk, interest rate risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Interest rate risk is the risk that the value of investments will decrease as market interest rates rise. Liquidity risk is the risk that the Fund will encounter difficulty in meeting its insurance claim obligations as they fall due. The Fund minimizes its liquidity risk by monitoring the level of cash available to meets its obligations and by maintaining a portfolio of investments that is highly liquid.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk.

a) CREDIT RISK

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the GRST pool. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. 100% (2020: 100%) of the investments are with counterparties with credit ratings considered to be investment grade.

b) SECURITY LENDING RISK

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Fund's share of securities loaned under this program is $29,438 (2020: $15,301) and collateral held totals $31,701 (2020: $16,287). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of the investments loaned.

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the GRST pool. Interest rate risk relates to the possibility that the fair value of bonds will change in fair value due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and if, all other variables were held constant, the potential loss in fair value to the Fund would be approximately 2.7% of total investments (2020: 2.7%).

d) LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. The Fund's main liabilities include liabilities for accrued claims and payables related to purchase of pool units.

NOTE 6 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 7 ACCOUNTS PAYABLE

	($ thousands) 2021	2020
Payable to Department of Treasury Board and Finance	$ 104	$ 461
Other	1,678	269
	$ 1,782	$ 730

NOTE 8 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $73,434 (2020: $70,292) 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.

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, 2021 was carried out by J. S. Cheng & Partners Inc. taking into account the historical claims through March 31, 2021.

The actuarial review was determined using an actuarial present value basis and 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:

Discount rate

The discount rate used was 0.881% (2020: 1.991%).

	2021	2020
Trend rate		
General liability	2.0%	2.0%
Automobile liability	2.0%	2.0%
Property	2.0%	2.0%
Auto physical damage	2.1%	2.8%
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)*	$ 1.05	$ 1.05
Automobile liability: *Loss per vehicle*	$ 135	$ 130
Property: *Loss per $million property values*	$ 550	$ 550
Auto physical damage: *Loss per vehicle*	$ 250	$ 260

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2021:

Sensitivity Tests	Increase (Decrease) in Net Liabilities *($ millions)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 9.0
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 6% and 9%, depending on coverage type.	$ 21.7
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ (4.0)

NOTE 9 INSURANCE CLAIMS

	($ thousands) 2021	2020
Total claims payments during the year	$ 11,963	$ 13,145
Change in claims reserves	3,142	1,067
	$ 15,105	$ 14,212

NOTE 10 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2021 are $1,279 (2020: $1,080).

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

	($ thousands)
2021-22	705
2022-23	354
2023-24	194
2024-25	26
2025-26	-
Thereafter	-
	$ 1,279

NOTE 11 RELATED PARTY TRANSACTIONS

As disclosed in the financial statements, the Fund has revenues from the Province of Alberta departments, funds, and agencies of $16,372 (2020: $16,973) and an accounts payable to the Department of Treasury Board and Finance of $104 (2020: $461).

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

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

Provincial Judges And Masters In Chambers Reserve Fund

Financial Statements

March 31, 2021

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Independent Auditor’s Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statement of financial position as at March 31, 2021, and the statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying 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, 2021, and the changes in net assets for the year ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Provincial Judges and Masters in Chambers Reserve Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of the Provincial Judges and Masters in Chambers Reserve Fund are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Provincial Judges and Masters in Chambers Reserve Fund, but does not include the financial statements of the Provincial Judges and Masters in Chambers Reserve Fund and my auditor’s report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor’s report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Provincial Judges and Masters in Chambers Reserve Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Provincial Judges and Masters in Chambers Reserve Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Provincial Judges and Masters in Chambers Reserve Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Provincial Judges and Masters in Chambers Reserve Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Provincial Judges and Masters in Chambers Reserve Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

	($ thousands) 2021	2020
Assets		
Investments (Note 3)	$ 233,376	$ 201,520
Receivable from sale of investments	554	-
Receivable from the Province of Alberta	703	-
	234,633	201,520
Liabilities		
Payable from purchase of investments	554	-
	234,079	201,520
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	234,079	201,520
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2021

	($ thousands) 2021	2020
Increase in assets		
Employer contributions	$ 8,386	$ 8,413
Investment income (Note 5)	37,205	-
	45,591	8,413
Decrease in assets		
Investment loss (Note 5)	-	12,046
Investment expenses (Note 7)	1,052	849
Transfers to Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	11,980	6,759
	13,032	19,654
(Increase) decrease in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(32,559)	11,241
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, 2021
(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Reserve Fund has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments and are prepared to assist the Unregistered Plan members and others in reviewing the activities of the Reserve Fund for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Alberta Investment Management Corporation (AIMCo) and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pools and the selection of securities in the pools. AIMCo, a Crown corporation within the Ministry of Treasury Board and Finance, controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The Reserve Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Reserve Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Reserve Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Reserve Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

   i. Income distributions from the pools.

   ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

d) INVESTMENT EXPENSES

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

e) LIABILITIES

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

As at March 31, 2021, current service contributions rates are 42.86% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the maximum pensionable salary limit. The rate was determined by the Unregistered Plan's actuary and approved by the President of Treasury Board and Minister of Finance.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 42.86% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $703 (2020: $703) were made towards the unfunded liability of the Unregistered Plan.

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

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

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

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Reserve Fund's investments.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

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

NOTE 3 INVESTMENTS CONTINUED

($ thousands)

Asset class	Fair Value Hierarchy (a) Level 2	Level 3	2021	2020
Interest-bearing securities				
Deposits and short-term securities	$ 4,822	$ -	$ 4,822	$ 237
Bonds and mortgages	80,613	12,460	93,073	84,492
	85,435	12,460	97,895	84,729
Public equity				
Canadian	33,853	-	33,853	28,954
Global developed	60,185	1,948	62,133	46,506
	94,038	1,948	95,986	75,460
Alternatives				
Real estate	-	25,387	25,387	25,701
Infrastructure	-	11,620	11,620	12,524
Renewable resources	-	1,693	1,693	1,792
	-	38,700	38,700	40,017
Strategic and currency investments*	(15)	810	795	1,314
Total investments	$ 179,458	$ 53,918	$ 233,376	$ 201,520

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Reserve Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $179,458 (2020: $147,513).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $53,918 (2020: $54,007).

Reconciliation of Level 3 Fair Value Measurement

($ thousands)

	2021	2020
Balance, beginning of year	$ 54,007	$ 54,818
Investment (loss) income *	(249)	328
Purchases of Level 3 pooled fund units	4,979	6,666
Sale of Level 3 pooled fund units	(4,819)	(7,805)
Balance, end of year	$ 53,918	$ 54,007

* Investment income includes unrealized losses of $2,757 (2020: losses of $2,820).

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Public equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Infrastructure investments are valued similar to private equity investments. The fair value of renewable resources investments is appraised annually by independent third party evaluators.
- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on the difference between contractual foreign exchange rates and foreign exchange forward rates. Futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

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

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

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2021		2020	
		($ thousands)	*%*	*($ thousands)*	*%*
Interest-bearing securities	30 - 50%	$ 97,895	42.0	$ 84,729	42.0
Public equities	30 - 50%	95,986	41.1	75,460	37.4
Alternatives	15 - 30%	38,700	16.6	40,017	19.9
Strategic and currency investments	(a)	795	0.3	1,314	0.7
		$ 233,376	100.0	$ 201,520	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Reserve Fund.

a) Credit Risk

i) Debt securities

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

The following table summarizes the Reserve Fund's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	83.8%	87.0%
Speculative Grade (BB+ or lower)	2.7%	0.6%
Unrated	13.5%	12.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Reserve Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Reserve Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Reserve Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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 Reserve Fund's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, The Reserve Fund's share of securities loaned under this program is $4,251 (2020: $3,364) and collateral held totals $4,539 (2020: $3,592). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Reserve Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 25% (2020: 22%) of the Reserve Fund's investments, or $58,936 (2020: $45,290), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 14% (2020: 12%) and the Euro, 3% (2020: 2%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 2.5% (2020: 2.2%).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2021:

	($ thousands)			
	2021		2020	
Currency [a]	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	$ 33,083	$ (3,308)	$ 24,283	$ (2,428)
Euro	6,448	(645)	4,467	(447)
Japanese yen	3,979	(398)	3,904	(390)
British pound	2,766	(277)	1,640	(164)
Other foreign currencies	12,660	(1,266)	10,996	(1,100)
Total foreign currency investments	$ 58,936	$ (5,894)	$ 45,290	$ (4,529)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's total investments.

c) Interest Rate Risk

The Reserve Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 2.6% (2020: 2.7%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Reserve Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 4.7% (2020: 5.0%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve Fund are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Reserve Fund's main liabilities include transfers payable to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2021	2020
Contracts in favourable position (current credit exposure)	75	$ 2,748	$ 22,799
Contracts in unfavourable position	9	(1,342)	(33,405)
Net fair value of derivative contracts	84	$ 1,406	$ (10,606)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $2,748 (2020: $22,799) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2021	2020
Equity-based derivatives	$ 526	$ (6,284)
Foreign currency derivatives	588	(2,334)
Interest rate derivatives	253	(1,995)
Credit risk derivatives	39	7
Net fair value of derivative contracts	$ 1,406	$ (10,606)

(i) Equity-based derivatives include contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

(v) At March 31, 2021, deposits in futures contracts margin accounts totaled $1,371 (2020: $4,207). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $2,665 (2020: $9,010) and $nil (2020: $nil).

NOTE 5 INVESTMENT INCOME

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

($ thousands)	Income	Changes in Fair Value	2021 Total	2020 Total
Interest-bearing securities	$ 7,201	$ (2,516)	$ 4,685	$ 2,944
Public equities				
Canadian	5,253	8,481	13,734	(7,176)
Foreign	8,698	11,689	20,387	(7,675)
	13,951	20,170	34,121	(14,851)
Alternatives				
Real estate	(152)	(1,311)	(1,463)	(181)
Infrastructure	419	(591)	(172)	(67)
Renewable resources	65	(112)	(47)	96
	332	(2,014)	(1,682)	(152)
Strategic and currency investments	486	(405)	81	13
	$ 21,970	$ 15,235	$ 37,205	$ (12,046)

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $899 and $14,392 respectively (2020: $559 and $(18,530) respectively). Realized and unrealized gains and losses on currency hedges total $(6) and $(50) respectively (2020: $6 and $36 respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis and income and expense on derivative contracts.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns:

	2021	2020	2019	2018	2017
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	15.2	(0.1)	6.1	4.7	8.9
Value added (lost) by AIMCo	2.5	(5.7)	0.6	1.0	1.5
Total return on investments [a]	**17.7**	**(5.8)**	**6.7**	**5.7**	**10.4**

[a] All investment returns are provided by AIMCo and are net of investment expenses The annualized total return and policy benchmark return (PBR) on investments over five years is 6.7% (PBR: 6.9%) and ten years is 7.6% (PBR: 7.2%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands) 2021	2020
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 701	$ 673
Performance based fees [(a)]	351	176
Total investment expenses	$ 1,052	$ 849
Increase in expenses	23.9%	5.7%
Increase (decrease) in average investments under management	5.0%	(1.0%)
Increase (decrease) in value of investments attributed to AIMCo	2.5%	(5.7%)
Investment expenses as a percent of dollar invested	0.5%	0.4%
Investment expenses per member	$ 3,530	$ 2,908

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

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

An actuarial valuation of the Unregistered Plan was carried out as at March 31, 2020 by George and Bell Consulting and was then extrapolated to March 31, 2021.

As at March 31, 2021 the Unregistered Plan reported an actuarial surplus of $6 million (2020: deficit $34 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current period presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

Supplementary Retirement Plan Reserve Fund

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the statement of financial position as at March 31, 2021, and the statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2021, and the changes in net assets for the year ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Supplementary Retirement Plan Reserve Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of the Supplementary Retirement Plan Reserve Fund are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Supplementary Retirement Plan Reserve Fund, but does not include the financial statements of the Supplementary Retirement Plan Reserve Fund and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Supplementary Retirement Plan Reserve Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Supplementary Retirement Plan Reserve Fund’s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Supplementary Retirement Plan Reserve Fund’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Supplementary Retirement Plan Reserve Fund’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report.

However, future events or conditions may cause the Supplementary Retirement Plan Reserve Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

	($ thousands) 2021	2020
Assets		
Investments (Note 3)	$ 164,499	$ 132,454
Receivable from participating employers	-	29
Receivable from sale of investments	491	-
	164,990	132,483
Liabilities		
Accounts payable	511	-
	164,479	132,483
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(164,479)	(132,483)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2021

	($ thousands) 2021	2020
Increase in assets		
Employer contributions	$ 1,739	$ 2,104
Investment income (Note 5)	31,255	-
	32,994	2,104
Decrease in assets		
Investment loss (Note 5)	-	11,074
Investment expenses (Note 7)	998	768
	998	11,842
(Increase) Decrease in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(31,996)	9,738
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, 2021

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

NOTE 1 SUMMARY DESCRIPTION OF THE RESERVE FUND

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Reserve Fund has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments and are prepared to assist the SRP members and others in reviewing the activities of the Reserve Fund for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Alberta Investment Management Corporation (AIMCo) and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pools and the selection of securities in the pools. AIMCo, a Crown corporation within the Ministry of Treasury Board and Finance, controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

The Reserve Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Reserve Fund reports its share of the financial risks in Note 4.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The fair value of pool units held directly by the Reserve Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Reserve Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pools participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

d) INVESTMENT EXPENSES

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

e) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the participating employers. Contribution rates are set by the Minister of Finance, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2021 was 9.9% (2020: 9.9%) of the pensionable salaries of eligible public service managers that were in excess of the maximum pensionable salary limit under the *Income Tax Act*.

The contribution rates were reviewed by the Minister of Finance in 2014 and are reviewed at least once every three years based on recommendations of the Reserve Fund's actuary.

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

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

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

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Plan's investments.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

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

NOTE 3 INVESTMENTS CONTINUED

($ thousands)

Asset class	Fair Value Hierarchy (a) Level 2	Level 3	2021	2020
Interest bearing securities				
Deposits in CCITF	$ 819	$ -	$ 819	$ 583
Bonds, mortgages and private debt	33,787	9,208	42,995	32,348
	34,606	9,208	43,814	32,931
Equities				
Canadian	25,809	-	25,809	20,771
Global	61,231	1,969	63,200	45,476
Private	-	1,482	1,482	1,759
	87,040	3,451	90,491	68,006
Alternatives				
Real estate	-	15,945	15,945	16,142
Infrastructure	-	10,566	10,566	11,104
Renewable resources	-	2,568	2,568	2,652
	-	29,079	29,079	29,898
Strategic, tactical and currency investments *	112	1,003	1,115	1,619
Total investments	$ 121,758	$ 42,741	$ 164,499	$ 132,454

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

At March 31, 2021, investments were allocated to various asset classes, with interest bearing securities comprising 26.6% (2020: 24.9%) of total investments, equities comprising 55.0% (2020: 51.3%), alternatives comprising 17.7% (2020: 22.6%) and strategic opportunities, tactical and currency investments comprising 0.7% (2020: 1.2%).

a) Fair Value Hierarchy:

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Reserve Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $121,758 (2020: $89,143).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $42,741 (2020: $43,311).

Reconciliation of Level 3 Fair Value Measurement

($ thousands)	2021	2020
Balance, beginning of year	$ 43,311	$ 43,637
Investment income *	333	721
Purchases of Level 3 pooled fund units	3,728	6,352
Sale of Level 3 pooled fund units	(4,631)	(7,399)
Balance, end of year	**$ 42,741**	**$ 43,311**

* Investment income includes unrealized losses of $1,626 (2020: losses of $2,307).

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

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

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Infrastructure investments are valued similar to private equity investments. The fair value of renewable resources investments is appraised annually by independent third party evaluators.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consists of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

NOTE 3 INVESTMENT CONTINUED

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on the difference between contractual foreign exchange rates and foreign exchange forward rates. Futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

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

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. Assets are managed for the SRP as a whole, including the Retirement Compensation Arrangement (RCA). In order to earn the best possible return at an acceptable level of risk, the Ministry has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix
Interest bearing securities	25 - 45%
Equities	35 - 60%
Alternatives	12.5 - 30%
Strategic, tactical and currency investments	(a)

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at their discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

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

The following table summarizes the Reserve Fund's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	75.5%	78.7%
Speculative Grade (BB+ or lower)	2.9%	0.7%
Unrated	21.6%	20.6%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Reserve Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Reserve Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Reserve Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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 Reserve Fund's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Reserve Fund's share of securities loaned under this program is $3,768 (2020: $2,751) and collateral held totals $4,026 (2020: $2,942). 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.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

b) Foreign Currency Risk

The Reserve Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investmens 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 37% (2020: 33%) of the Reserve Fund's investments, or $60,655 (2020: $44,738), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 22% (2020: 19%) and the Euro, 4% (2020: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 3.7% (2020: 3.3%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2021:

	($ thousands)			
	2021		2020	
Currency [a]	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	$ 36,155	$ (3,616)	$ 24,933	$ (2,493)
Euro	6,843	(684)	4,563	(456)
Japanese yen	4,328	(433)	3,924	(392)
British pound	2,893	(289)	1,574	(158)
Hong Kong dollar	1,731	(173)	1,232	(123)
Other foreign currencies	8,705	(871)	8,512	(852)
Total foreign currency investments	$ 60,655	$ (6,066)	$ 44,738	$ (4,474)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's total investments.

c) Interest Rate Risk

The Reserve Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 1.6% (2020: 1.3%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Reserve Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 6.3% (2020: 6.9%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve Fund are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Reserve Fund's main liabilities include transfers payable to the Supplementary Retirement Plan for Public Service Managers and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	**2021**	**2020**
Contracts in favourable position (current credit exposure)	76	$ 2,517	$ 19,843
Contracts in unfavourable position	10	(1,233)	(27,796)
Net fair value of derivative contracts	86	$ 1,284	$ (7,953)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $2,517 (2020: $19,843) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2021	2020
Equity-based derivatives	$ 615	$ (5,799)
Foreign currency derivatives	520	(1,447)
Interest rate derivatives	98	(707)
Credit risk derivatives	51	-
Net fair value of derivative contracts	$ 1,284	$ (7,953)

(i) Equity-based derivatives include contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

(v) At March 31, 2021, deposits in futures contracts margin accounts totaled $912 (2020: $3,579). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $1,781 (2020: $7,180) and $nil (2020: $nil).

NOTE 5 INVESTMENT INCOME

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

	($ thousands) Income	Changes in Fair Value	2021 Total	2020 Total
Interest bearing securities	$ 2,936	$ (1,297)	$ 1,639	$ 1,266
Equities				
Canadian	3,891	6,181	10,072	(5,244)
Global	8,596	11,576	20,172	(7,479)
Private	(66)	178	112	(276)
	12,421	17,935	30,356	(12,999)
Alternatives				
Real estate	5	(823)	(818)	(118)
Infrastructure	337	(269)	68	521
Renewable resources	-	(92)	(92)	311
	342	(1,184)	(842)	714
Strategic, tactical and currency investments	571	(469)	102	(55)
	$ 16,270	$ 14,985	$ 31,255	$ (11,074)

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $506 and $14,558 respectively (2020: $654 and $(16,792) respectively). Realized and unrealized gains and losses on currency hedges total $(89) and $10 respectively (2020: $5 and $(19) respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis and income and expense on derivative contracts.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2021	2020	2019	2018	2017
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	18.3	(1.2)	6.5	5.6	10.4
Value added (lost) by AIMCo	4.1	(6.8)	0.3	0.9	1.3
Total return on investments [a]	**22.4**	**(8.0)**	**6.8**	**6.5**	**11.7**

[a] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 8.0% (PBR: 7.9%) and ten years is 8.8% (PBR: 8.1%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2021	**2020**
Amounts charged by AIMCo for:		
Investment costs [a]	$ 569	$ 564
Performance based fees [a]	429	204
Total investment expenses	$ 998	$ 768
Increase in expenses	29.9%	10.5%
Increase in average investments under management	8.1%	0.6%
Increase (decrease) in value of investments attributed to AIMCo	4.1%	(6.8%)
Investment expenses as a percent of dollar invested	0.7%	0.6%
Investment expenses per member	$ 414	$ 317

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

NOTE 8 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2018 by Aon and was then extrapolated to December 31, 2020.

As at December 31, 2020 the SRP reported an actuarial deficit of $60 million (2019: deficit of $45 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

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October 30, 2020

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Independent Auditor's Report

Auditor General
OF ALBERTA

To the Minister of Finance and President of Treasury Board

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Capital Finance Authority, which comprise the statement of financial position as at October 30, 2020, and the statements of operations and accumulated operating surplus, remeasurement gains and losses, and cash flows for the 304 days then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at October 30, 2020, and the results of its operations, its remeasurement gains and losses, and its cash flows for the 304 days then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of Alberta Capital Finance Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

I draw attention to Note 1 and Note 3, which describe the dissolution of Alberta Capital Finance Authority. My opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The financial statements of Alberta Capital Finance Authority are included in the *Annual Report of the Ministry of Treasury Board and Finance.* The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to Alberta Capital Finance Authority, but does not include the financial statements of Alberta Capital Finance Authority and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Alberta Capital Finance Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting as applicable in accordance with Canadian public sector accounting standards.

Those charged with governance are responsible for overseeing Alberta Capital Finance Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Alberta Capital Finance Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Alberta Capital Finance Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. Because of the dissolution of Alberta Capital Finance Authority, as disclosed in the financial statements, it ceased to be a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

March 25, 2021
Edmonton, Alberta

Statement of Financial Position

As at October 30, 2020
(in thousands of dollars)

	October 30, 2020	December 31, 2019
Assets		
Cash (Note 4)	$ 8,379	$ 13,440
Restricted cash (Note 4)	196,794	196,794
Accounts receivable	40	460
Accrued interest receivable on loans to local authorities	196,063	95,073
Loans to local authorities (Note 5)	15,910,013	15,927,504
Derivatives in favourable position (Note 7)	1,563,587	760,965
	17,874,876	16,994,236
Liabilities		
Accounts payable	426	454
Accrued interest payable on debt	146,437	45,845
Debt (Note 6, Schedule 1)	15,624,767	15,657,227
Derivatives in unfavourable position (Note 7)	2,348,232	1,160,341
	18,119,862	16,863,867
Net financial (debt) assets	(244,986)	130,369
Non-financial assets		
Tangible capital assets (Net of accumulated amortization $15; 2019 - $13)	5	7
	5	7
Accumulated (deficit) surplus	$ (244,981)	$ 130,376
Accumulated (deficit) surplus is comprised of:		
Accumulated operating surplus (Note 8)	546,061	527,398
Accumulated remeasurement losses	(791,042)	(397,022)
Accumulated (deficit) surplus	$ (244,981)	$ 130,376

Contractual obligations and commitments are found in Note 12.
The accompanying notes and schedule are an integral part of these financial statements.

These financial statements were reviewed and approved by the Director.

Original signed by

Lowell Epp
Director

Statement of Operations and Accumulated Operating Surplus

For the 304 Days Ended October 30, 2020
(in thousands of dollars)

	Budget December 31, 2020 (Note 14)	304 Days Ended October 30, 2020	Year Ended December 31, 2019
Interest Income			
Loans	$ 572,174	$ 470,447	$ 573,905
Loan swaps (pay fixed, receive floating)	(162,695)	(233,955)	(151,298)
Investments	5,737	1,961	7,775
	415,216	238,453	430,382
Interest Expense			
Debt	383,916	316,355	384,246
Debt swaps (receive fixed, pay floating)	(55,336)	(118,361)	(34,146)
Amortization of net discounts on debt	52,747	18,349	39,013
Amortization of commission fees	3,651	2,808	3,710
	384,978	219,151	392,823
Net interest income	30,238	19,302	37,559
Other Income			
Loan prepayment fees (Note 7)	-	82	47,992
Swap termination and amendment fees (Note 7)	-	-	(42,312)
	-	82	5,680
Net interest income and other income	30,238	19,384	43,239
Non-Interest Expenses			
Administration and office expenses (Note 9,10)	713	719	1,238
Amortization of tangible capital assets	2	2	2
Non-interest and other expenses	715	721	1,240
Operating surplus	29,523	18,663	41,999
Accumulated operating surplus, beginning of year	527,047	527,398	485,399
Accumulated operating surplus, end of year	$ 556,570	$ 546,061	$ 527,398

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

Statement of Remeasurement Gains and Losses

For the 304 Days Ended October 30, 2020
(in thousands of dollars)

	304 Days Ended October 30, 2020	Year Ended December 31, 2019
Derivatives		
Accumulated remeasurement losses on derivatives, beginning of year	$ (378,641)	$ (361,225)
Unrealized losses – fair value of derivatives	(405,101)	(17,416)
Accumulated remeasurement losses on derivatives, end of year	(783,742)	(378,641)
Foreign Exchange		
Accumulated remeasurement losses on foreign exchange, beginning of year	(18,381)	(126,820)
Unrealized gains – foreign currency translation	11,081	108,439
Accumulated remeasurement losses on foreign exchange, end of year	(7,300)	(18,381)
Accumulated remeasurement losses, end of year	$ (791,042)	$ (397,022)

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

Statement of Cash Flows

For the 304 Days Ended October 30, 2020
(in thousands of dollars)

	304 Days Ended October 30, 2020	Year Ended December 31, 2019
Operating Activities		
Loan interest income	$ 369,456	$ 576,447
Investments	2,380	7,904
Debt swaps (receive fixed, pay floating)	28,829	30,309
Loan prepayment fees	83	47,992
Swap termination and amendment fees	-	(42,312)
Debt interest expense	(215,763)	(382,916)
Discounts paid at debt maturity	(28,135)	(37,059)
Commission fees	(938)	(1,500)
Loan swaps (pay fixed, receive floating)	(164,255)	(151,808)
Cash collateral	-	91,783
Administration and office expenses	(747)	(1,426)
Cash flows (used in) from operating activities	(9,072)	137,415
Investing Activities		
Loan principal repayments	643,930	1,443,755
Loans issued	(626,439)	(1,400,111)
Cash flows from investing activities	17,491	43,644
Financing Activities		
Debt issued	8,201,770	10,469,622
Debt redemption	(8,215,232)	(10,731,959)
Cash flows used in financing activities	(13,462)	(262,337)
Net decrease in cash	(5,061)	(81,278)
Cash, beginning of year	13,440	94,718
Cash, end of year	$ 8,379	$ 13,440

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

Notes to the Financial Statements

October 30, 2020

(in thousands of dollars, except share amounts)

Note 1 – Authority

On October 30, 2020, Alberta Capital Finance Authority ("ACFA") operated under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders for capital purposes. In November 2019, the *Reform of Agencies, Board and Commissions and Government Enterprises Act, 2019* (Bill 22) received Royal Assent in the Legislative Assembly of Alberta. In the bill, the *Alberta Capital Finance Authority Act* and its related regulations will be repealed and replaced by the *Local Authorities Financing Act*.

On October 7, 2020, the *Local Authorities Financing Act* was proclaimed into force by Order in Council 304/2020. The *Local Authorities Financing Act*, which dissolves ACFA and transfers ACFA's assets, liabilities, and operations to the Department of Treasury Board and Finance, comes into force on October 31, 2020.

Legislation sets the date of the dissolution. Different practices exist regarding timing of accounting for the dissolution, either the day of or day before the legislated dissolution. When management determines that the accounting period ends the day of the dissolution, the statement of financial position reports no assets and/or liabilities as at the period end date, and the statement of operations reports the net amount of liabilities or assets transferred upon dissolution as revenue or expense. When management determines that the accounting period ends the day before the dissolution, the dissolution is a subsequent event, and the statement of financial position reports assets and/or liabilities as at the day before the dissolution, and no dissolution revenue or expense is reported in the current period statement of operations. Management has determined the ACFA's accounting period ended the day before the dissolution. Accordingly, the statement of financial position reports assets and liabilities as at the day before the dissolution, and the statement of operations does not include an amount related to the dissolution. All assets and liabilities were transferred subsequent to period end to the Department of Treasury Board and Finance, a related entity within the government reporting entity.

See Note 3 – Dissolution of the Authority

Note 2 – Significant Accounting Policies and Reporting Practices

The financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS") as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts. Given the significant economic challenges and increased volatility of financial markets due to the COVID-19 pandemic, measurement uncertainty may be greater than in previous years. See Note 5 – Loans to Local Authorities.

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

(b) Valuation of Financial Instruments

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial liabilities are any liabilities that are contractual obligations: to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
October 30, 2020
(in thousands of dollars, except share amounts)

ACFA's financial assets and financial liabilities are generally measured as follows and as further described in this note:

Financial Statement Component	Measurement
Cash and restricted cash	Cost
Accounts receivable (payable)	Cost
Accrued interest receivable on loans to local authorities	Cost
Loans to local authorities	Amortized cost
Derivatives in favourable (unfavourable) position	Fair value
Accrued interest payable on debt	Cost
Debt	Amortized cost
Embedded derivatives	Fair value

(c) Cash

Cash includes cash on hand and cash on demand deposit in the Province of Alberta's Consolidated Cash Investment Trust Fund ("CCITF"), including any allocated interest not yet transferred to CCITF participants. ACFA's cash balances in CCITF are used for operations or are restricted for unredeemed coupons. CCITF holds investments in primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years.

(d) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statement of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method and are included in the carrying value of the loan.

Impairment losses are recognized in the statement of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue on loans is recognized on an accrual basis and is measured using the effective interest method. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(e) Debt

The carrying value of debt, including transaction costs, is recorded at amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statement of financial position. Debt premiums and discounts and underwriting commissions arising from the issuance of debt are amortized over the term of the debt using the effective interest method and are included in the carrying value of the debt.

Interest expense on debt is recognized on an accrual basis and is measured using the effective interest method.

(f) Derivative Financial Instruments

Derivative contracts for interest rate swaps and cross-currency interest rate swaps are recorded at fair value on the statement of financial position and changes in fair value are recorded as unrealized gains and losses in the statement of remeasurement gains and losses. When a derivative financial instrument is derecognized, remeasurement gains or losses are reclassified to the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis of measurement for derivative contracts because the historical cost is, at most, nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk the cash flows will not occur. Fair values are determined using third party valuation software that generates a discount curve based on observable market rates and swap spreads.

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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Fair values have been segregated between those contracts which are in favourable positions (positive fair value) and those contracts which are in unfavourable positions (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statement of financial position.

Net interest paid or received on the pay fixed, receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed, pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

Only contractual obligations entered into or modified on or after January 1, 2013 are evaluated for the existence of embedded derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative when all of the following conditions are met:

i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
iii) The hybrid, combined instrument is not measured at fair value.

(g) Non-Financial Assets

Prepaid expenses and tangible capital assets are non-financial assets and are accounted for by ACFA as they can be used to provide services in future periods. Tangible capital assets do not normally provide resources to discharge the liabilities of ACFA unless they are sold. Tangible capital assets are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. Tangible capital assets are written down when conditions indicate they no longer contribute to ACFA's ability to provide services, or when the value of future economic benefits associated with them are less than their net book values. Write downs are expensed in the statement of operations.

(h) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, discounts paid at debt redemption, premiums received at debt issuance and interest paid are presented in the statement of cash flows as operating activities.

(i) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the reporting date. Operating revenues and expenses related to foreign currency transactions are translated into Canadian dollars using the rate of exchange for the day. Unrealized foreign exchange gains and losses on long term monetary items are accumulated in the statement of remeasurement gains and losses until settlement, at which point, the cumulative amount is reversed and recognized in the statement of operations.

(j) Net Financial Debt Model of Presentation

A statement of changes in net financial debt has not been provided since the information that would be presented in that statement is readily apparent from the other financial statements and related notes. Net financial debt is reported in the statement of financial position. Net financial debt is the difference between financial liabilities and financial assets. It provides an indicator of future revenue requirements and entity's ability to finance its activities and meet its liabilities and commitments.

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
October 30, 2020
(in thousands of dollars, except share amounts)

Note 3 – Dissolution of the Authority

Pursuant to the *Local Authorities Financing Act ACFA's assets and liabilities were transferred to Department of Treasury Board and Finance on October 31, 2020.*

	October 30, 2020
Assets	
Cash (Note 4)	$ 8,379
Restricted cash (Note 4)	196,794
Accounts receivable	40
Accrued interest receivable on loans to local authorities	196,063
Loans to local authorities (Note 5)	15,910,013
Derivatives in favourable position (Note 7)	1,563,587
Liabilities	
Accounts payable	426
Accrued interest payable on debt	146,437
Debt (Note 6, Schedule 1)	15,624,767
Derivatives in unfavourable position (Note 7)	2,348,232
Net financial debt	(244,986)
Non-financial assets	
Tangible capital assets (Net of accumulated amortization $15; 2019 - $13)	5
Accumulated deficit	$ (244,981)

ACFA's contractual obligations and commitments (Note 12) were also transferred to the Department of Treasury Board and Finance.

Note 4 – Cash

	October 30, 2020	December 31, 2019
Cash	$ 8,379	$ 13,440
Uncashed coupons and cheques	$ 349	$ 349
Posted cash collateral (Note 7)	196,445	196,445
Restricted cash	$ 196,794	$ 196,794

Cash in ACFA's operating account, uncashed coupon account, and uncashed cheques account earn interest as part of the Province of Alberta's CCITF. Amounts classified as uncashed coupons and cheques are set aside for outstanding debt obligations on unredeemed coupons and bonds. The year to date return for CCITF deposits at October 30, 2020 was 0.88% per annum (December 31, 2019 – 1.88% per annum).

Cash collateral is posted to counterparties when ACFA has exceeded established thresholds of net unfavorable positions with counterparties under the Credit Support Annex ("CSA") Agreements as described in Note 7. Posted cash collateral earns interest as prescribed by the CSA Agreements.

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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Note 5 – Loans to Local Authorities

	October 30, 2020			December 31, 2019		
Municipal authorities and regional services commissions	$	10,325,135	65%	$	10,254,596	64%
Regional airport authorities		3,940,060	25%		3,966,124	25%
Educational and health		1,644,815	10%		1,706,784	11%
Amortized cost	$	15,910,013	100%	$	15,927,504	100%

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. For loan applications by applicants who:

(i) have exceeded the borrowing limits established under their governing legislation;
(ii) are considered to be in financial difficulty;
(iii) have not met the terms of the ACFA's lending policies; or
(iv) are referred to the Board of Directors (Director) for any reason;

the loan must have been approved by the Board of Directors, who may consider the loan application on the recommendation of the President prior to November 22, 2019. After the *Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019* (Bill 22) received Royal Assent on November 22, 2019, the loan must have been approved by the sole director of ACFA, who may consider the loan application on the recommendation of management.

ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, and regional services commissions account for a majority of loan assets held by ACFA. This borrower category is regulated by the *Municipal Government Act*, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

(b) Regional airport authorities utilize airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

(c) Educational and health authorities have terms, conditions, and security specific to their respective loan agreements.

As a result of the COVID-19 pandemic, some of ACFA's borrowers faced financial challenges. ACFA recognized the ongoing challenges and uncertainties of the pandemic and has provided loan payment deferrals, covenant waivers, and refinancing to borrowers in financial crisis.

Measuring expected loan losses is complex because it involves a number of variables such as a borrower's liquidity, borrower's credit quality, and forward-looking macroeconomic conditions. While there is significant increase in credit risk, no impairment losses are recognized in the Statement of Operations as of October 30, 2020. Offering loan refinancing options to borrowers in financial crisis is a solution to minimize the risk of credit loss, therefore, allowance of loan loss is not recorded as at October 30, 2020.

ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 11 (c).

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
October 30, 2020
(in thousands of dollars, except share amounts)

Note 6 – Debt

	October 30, 2020		December 31, 2019
Contractual principal	$ 15,683,635	(a - d)	$ 15,725,431 (e)
Unamortized net discounts	(39,334)		(46,801)
Unamortized commission fees	(19,534)		(21,403)
Amortized cost	$ 15,624,767		$ 15,657,227

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April 2011, all ACFA debt is borrowed by the Province of Alberta. The Province of Alberta then on-lends the money to ACFA for loan disbursement and cash management (Schedule 1). ACFA is fully responsible for repaying the debt.

For the next five years, contractual debt redemption requirements by debt type, with the assumption all debt is redeemed at the maturity date, are as follows:

Year ending October 30	Short-term	Floating		Fixed		Total
2021	$ 1,560,000	$ -		$ -		$ 1,560,000
2022	-	-		1,521,510	(b)	1,521,510
2023	-	279,400	(a)	1,370,000		1,649,400
2024	-	-		170,000		170,000
2025	-	-		1,676,160	(c)	1,676,160
	1,560,000	279,400		4,737,670		6,577,070
Thereafter	-	-		9,106,565	(d)	9,106,565
Total	$ 1,560,000	$ 279,400		$ 13,844,235		$ 15,683,635

(a) 2,000,000 kr (Norwegian Krone) (279,400 CAD) floating rate debt maturing December 22, 2022 translated at the foreign exchange rate at the reporting date.
(b) £650,000 GBP ($1,121,510 CAD) fixed term debt maturing November 15, 2021 translated at the foreign exchange rate at the reporting date.
(c) Includes $1,200,000 USD ($1,598,160 CAD) fixed term debt maturing May 20, 2025 translated at the foreign exchange rate at the reporting date.
(d) Includes $600,000 USD ($799,080 CAD) fixed term debt maturing August 17, 2026, $175,000 AUD ($163,993CAD) fixed term debt maturing December 14, 2026, $310,000 AUD ($290,501 CAD) fixed term debt maturing April 11, 2028, 1,400,000 kr (Swedish Krona) ($209,720CAD) fixed term debt maturing February 20, 2029 and €225,000 EUR ($349,492CAD) fixed term debt maturing December 1, 2043 translated at the foreign exchange rates at the reporting date.
(e) Includes the following foreign currency debt translated at the foreign exchange rates as at December 31, 2019: £650,000 GBP ($1,116,310 CAD) fixed term debt maturing November 15, 2021, $600,000 USD ($779,280 CAD) fixed term debt maturing August 17, 2026, $175,000 AUD ($159,635 CAD) fixed term debt maturing December 14, 2026, $310,000 AUD ($282,782 CAD) fixed term debt maturing April 11, 2028, 1,400,000 kr (Swedish Krona) ($195,160 CAD) fixed term debt maturing February 20, 2029 and €225,000 EUR ($328,118 CAD) fixed term debt maturing December 1, 2043.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 11 (c).

Note 7 – Derivative Financial Instruments

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or other variable; it requires no initial net investment or the initial investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled in the future.

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To minimize ACFA's interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps may be used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied to calculate the exchange of cash flows. The outstanding notional amounts are not recorded in the statement of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal practice to terminate swaps before maturity and realize gains or losses, unless there is a valid business reason to do so. Swaps are intended to be held to maturity to reduce interest rate risk but may be terminated with a prepayment fee if a large loan prepayment occurs. Penalties imposed by the counterparty are in turn recovered from the local authority according to the Stop-Loss Settlement Policy so there is no financial loss to ACFA. During the year, no loan swaps were unwound, and no loan swaps were amended due to prepayments and resulted in no in prepayments fees recovered from local authorities (2019 – $47,992) and no swap termination and amendment fees remitted to the swap counterparties (2019 - $42,312).

Interest rate swaps include the following outstanding cross currency swaps:

	October 30, 2020				December 31, 2019			
Swapped	**Receive fixed interest in foreign currency on foreign currency notional**		**Pay floating interest in Canadian on Canadian equivalent notional at issue**		**Receive fixed interest in foreign currency on foreign currency notional**		**Pay floating interest in Canadian on Canadian equivalent notional at issue**	
Australian Dollar	$	485,000	$	470,438	$	485,000	$	470,438
European Euro	€	225,000	$	325,875	€	225,000	$	325,875
Norwegian Krone	kr	2,000,000	$	279,373	kr	-	$	-
Swedish Krona	kr	1,400,000	$	200,000	kr	1,400,000	$	200,000
United Kingdom Pound Sterling	£	650,000	$	1,061,125	£	650,000	$	1,061,125
United States Dollar	$	1,800,000	$	2,469,480	$	600,000	$	787,200

To minimize its foreign currency risk on debt, cross currency interest rate swaps are used as described in Note 11 (f).

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	**To October 30, 2021**	**October 31, 2021 to October 30, 2024**	**October 31, 2024 and after**	**Total**
Interest rate swaps, October 30, 2020	$ 80,283	$ 3,273,449	$ 25,017,720	$ 29,271,452
	To December 31, 2020	**January 1, 2021 to December 31, 2023**	**January 1, 2024 and after**	**Total**
Interest rate swaps, December 31, 2019	$ 1,164,460	$ 3,052,589	$ 23,982,672	$ 28,199,721

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At October 30, 2020, derivatives in favourable and unfavourable positions, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	October 30, 2020	December 30, 2019
Accrued interest receivable on debt swaps	$ 94,975	$ 5,443
Accrued interest payable on loan swaps	$ 95,878	$ 26,178

ACFA classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. When measurement of an item requires the use of inputs from more than one level, the measurement level attributable is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy used has the following levels:

Level	Fair Value Hierarchy
Level 1	Fair value is based on unadjusted, quoted prices in active markets, such as a public exchange, for identical assets or liabilities;
Level 2	Fair value is based on model-based valuation methods that make use of inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3	Fair value is based on valuation methods where inputs for the asset or liability are not based on observable market data (unobservable inputs) and the inputs have a significant impact on the valuation.

Derivative financial instruments recorded at fair value on the statement of financial position are classified as level 2. During the year, no transfers occurred between any of the levels on the fair value hierarchy.

The fair value of interest rate swaps has been calculated using valuation techniques that employ reputable and reliable application software to value derivatives. Observable short and long term rates in the money market and Canadian bond market, as well as swap spreads obtained from financial institutions, are used to develop an interest rate curve to discount derivative cash flows. For cross currency swaps, foreign exchange rates at the valuation date are used. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 25 basis point increase and a 25 basis point decrease in interest rates is an increase in fair value of $109,922 (2019 - $106,353) and a decrease in fair value of $114,654 (2019 - $110,517), respectively.

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA were exposed were to default at once. It is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing. Current and potential exposure is regularly reviewed against established limits on a counterparty basis.

Under the Province of Alberta's master agreement with counterparties, ACFA can, in the event of a counterparty default, net its favourable and unfavourable positions with the counterparty. In addition, under the agreement, several Credit Support Annexes ("CSA") have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position.

Effective December 20, 2019 the Province settled margin calls on behalf of ACFA. Collateral posted and received on ACFA's behalf is held by the Province and not recorded in the Statement of Financial Position. However, in the event the counterparty defaults on the terms of the derivative financial instrument, the full balance is available to ACFA. During the 304 days ended October 30, 2020, TBF was required to post cash collateral on behalf of ACFA on multiple occasions. As at October 30, 2020, the following cash collateral was outstanding:

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	October 30, 2020 Cash Collateral	December 31, 2019 Cash Collateral
Posted to counterparties by ACFA on net unfavourable positions	$ 329,089	$ 329,089
Received by ACFA on net favourable positions	132,644	132,644
Net collateral posted by ACFA (Note 4)	196,445	196,445
Posted to counterparties on behalf of ACFA on net unfavourable positions	412,378	25,109
Received on behalf of ACFA on net favourable positions	135,752	3,181
Net collateral posted on behalf of ACFA	276,626	21,928
Net collateral posted against derivative financial instruments	$ 473,071	$ 218,373

Derivative assets and liabilities are presented at gross fair value on the Statement of Financial Position. Although the amounts do not qualify for offset since default has not occurred, derivatives in favourable position of $1,328,015 at October 30, 2020 (2019 - $642,276) are subject to master netting arrangements against unfavourable positions of $2,317,151 (2019 - $1,136,685), which reduces ACFA's credit exposure by $1,328,015 (2019 - $642,276)**.**

Note 8 – Capital Management

ACFA is an agent of the Crown in right of Alberta and a provincial corporation whose debt is fully guaranteed by the Province of Alberta. This allows ACFA access to capital markets to obtain debt financing at a cost commensurate with the Province of Alberta's credit rating.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets, liabilities and business affairs 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 and to continue to benefit its shareholders by providing loans on a prudent basis. Net assets for capital management purposes are defined as accumulated operating surplus. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at October 30, 2020 were $546,061 (December 31, 2019 - $527,398). Capital management objectives, policies and procedures are unchanged since the preceding year.

Note 9 – Director and Audit Committee Fees, and Related Party Transactions

Director and Audit Committee fees paid by ACFA are as follows:

	October 30, 2020	**December 31, 2019**
Board and Audit Committee Chairs	$ -	$ 9
Board and Audit Committee	-	23
	$ -	$ 32

ACFA has no employees. Its operations are managed by seconded staff of Alberta Treasury Board and Finance, which is considered a related party. Other related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements, including local authorities that ACFA has issued loans to, such as educational and health authorities consolidated by Alberta Education, Alberta Advanced Education or Alberta Health, as well as the Province of Alberta on-lending receiving and paying CSA collateral on behalf of ACFA as of December 20, 2019 (Note 7). Loans to local authorities and debt on the

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statement of financial position, as well as the associated income and expense on the statement of operations and accumulated operating surplus, include amounts with related parties incurred in the normal course of business and are recorded at amounts of consideration agreed upon between the related parties.

Included in administration and office expenses is the amount of $484 (2019 - $937) for salaries, services or goods paid to related parties within the Province of Alberta at the amount of consideration agreed upon between the related parties. Included in accounts payable is the amount of $27 (2019 - $44) due to related parties at October 30, 2020.

Note 10 – Expense by Object

	Budget December 31, 2020	October 30, 2020	December 31, 2019
Salaries and benefits	$ 479	$ 436	$ 802
Services	151	208	198
Contract services	46	59	196
Goods	14	1	18
Financial transactions and other	23	15	24
	$ 713	$ 719	$ 1,238

Note 11 – Financial Risk Management

(a) Asset and Liability Management

ACFA's assets are legislatively limited to an aggregate principal sum of all outstanding loans and securities not to exceed $18 billion. As debt and earnings are used to fund these loans, ACFA raises debt that can be obtained by the Province of Alberta in the capital markets given the amounts and terms requested by local authorities and the deals available. ACFA also manages its assets and liabilities by monitoring the duration and term to maturity of its existing loan and debt portfolios, obtaining estimated capital requirements for the local authorities to anticipate loan demand, utilizes the Province of Alberta's credit rating and operates under a financing plan that provides for a mixture of short-term, floating and fixed debt.

ACFA's viability is further managed by swapping its fixed term interest income on loans and fixed term interest expense on debt to floating rates so that movements in market interest rates are counter balanced by offsetting revenue and expense streams. For most loans made after January 1, 2004, ACFA uses the following to minimize the exposure related to fluctuations in interest rates: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; and debt interest rate swaps to swap fixed rate debt interest to floating. Cross currency interest rate swaps are used to mitigate foreign exchange rate fluctuations as described in Note 11 (f).

ACFA's Canadian dollar bank accounts are exposed to interest rate risk. Canadian cash balances are held in CCITF.

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk from borrowers or local authorities is described in Note 5 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 7.

(c) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive liabilities. ACFA's interest rate sensitive assets and liabilities are those that: generate interest income such as loans and cash, incur interest expense such as debt, are interest rate swaps or are near-term cash inflows (outflows) such as accrued interest receivable (payable)

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associated with an underlying interest rate sensitive asset or liability. Non-interest rate sensitive assets and liabilities excluded in the tables below are accounts receivable, prepaid expenses, tangible capital assets and accounts payable.

The contractual principal amounts of ACFA's interest rate sensitive assets and liabilities by maturity/ next repricing date are summarized below.

Maturity / Repricing	October 31, 2020 to October 30, 2021	October 31, 2021 to October 30, 2024	October 31, 2024 and after	Total
Financial Assets:				
Cash and restricted cash	$ 205,173	$ -	$ -	$ 205,173
Accrued interest receivable on loans	196,063	-	-	196,063
Accrued interest receivable on debt swaps (a)	94,975	-	-	94,975
Loans to local authorities	906,718	2,493,810	12,509,485	15,910,013
October 30, 2020	$ 1,402,929	$ 2,493,810	$ 12,509,485	$ 16,406,226
Loan effective rate, October 30, 2020 (b)	3.57%	3.56%	3.58%	3.58%

	2020	2021 to 2023	2024 and after	Total
December 31, 2019	$ 1,181,192	$ 2,482,033	$ 12,575,029	$ 16,238,254
Loan effective rate, 2019 (b)	3.63%	3.63%	3.69%	3.69%

(a) Included in derivatives in favourable position on the statement of financial position.
(b) The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the loan to the net carrying amount.

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Maturity/ Repricing	October 31, 2020 to October 30, 2021	October 31, 2021 to October 30, 2024	October 31, 2024 and after	Total
Financial Liabilities:				
Accrued interest payable on debt	$ 146,437	$ -	$ -	$ 146,437
Accrued interest payable on loan swaps (a)	95,878	-	-	95,878
Debt by type:				
Short-term (c)	1,559,399	-	-	1,559,399
Floating	279,400	-	-	279,400
Fixed (b)	-	3,061,510	10,782,725	13,844,235
October 30, 2020	$ 2,081,114	$ 3,061,510	$ 10,782,725	$ 15,925,349
Debt effective rate, October 30, 2020 (d)	2.47%	2.63%	2.65%	2.65%
	2020	**2021 to 2023**	**2024 and after**	**Total**
December 31, 2019	$ 3,816,391	$ 3,056,310	$ 8,916,754	$ 15,789,455
Debt effective rate, 2019 (d)	2.68%	2.89%	2.84%	2.84%

(a) Included in derivatives in unfavourable position on the statement of financial position.
(b) Foreign currency denominated debt is translated at the foreign exchange rate at the reporting date.
(c) Comprised of contractual principal of $1,560,000 (December 31, 2019 - $1,950,000) net of discounts on short-term notes of$601 (December 31, 2019 - $7,999).
(d) The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount.

Loan interest rate swaps and debt interest rate swaps with outstanding notional amounts of $15,583,383 and $13,688,069 respectively (December 31, 2019 - $15,573,305 and $12,626,416 respectively) have not been included in the above table as notional amounts do not represent either financial assets or financial liabilities. Notional amounts are not recorded in the statement of financial position.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included in the interest rate sensitivity analysis are floating rate debt and cash.

The potential impact of an immediate and sustained increase (decrease) of 25 basis points in interest rates throughout the year with all other variables held constant would impact net interest income by $5,251 increase and $5,251 decrease (December 31, 2019 - $6,693 increase and $6,693 decrease).

(d) Liquidity Risk

Liquidity risk is the risk that ACFA will encounter difficulty in meeting obligations associated with its financial liabilities. ACFA's exposure to liquidity risk arises due to its cash flow requirements to fulfill debt payments and redemptions, loan demand of local authorities, and cash collateral postings under CSA agreements.

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ACFA manages its liquidity risk by monitoring its cash flows daily. Surplus funds are invested in CCITF. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, the Province of Alberta on-lends debt to ACFA to ensure ACFA maintains an adequate cash balance.

Interest and principal repayments, as well as other payments for derivative financial instruments, are relevant for the presentation of the maturities of cash flows. The future cash flows below are not discounted. Foreign currencies are translated at the foreign exchange rate at the reporting date.

The maturities of ACFA's contractual cash flows for financial liabilities at October 30, 2020, with the assumption that all debt is redeemed at the maturity date, based on the earlier of repricing or principal repayments, are as follows:

Estimated Future Cash Out Flows	October 31, 2020 to October 30, 2021	October 31, 2021 to October 30, 2024	October 31, 2024 and after	Total
Accounts payable	$ 426	$ -	$ -	$ 426
Debt by type, contractual repayments of principal:				
Short-term (a)	1,559,399	-	-	1,559,399
Floating (b)	279,400	-	-	279,400
Fixed	-	3,061,510	10,782,725	13,844,235
Debt by type, contractual payments of interest:				
Short-term (a)	601	-	-	601
Floating (b)	3,409	-	-	3,409
Fixed	361,305	980,221	1,902,470	3,243,996
Loan swaps (pay fixed, receive floating) (b)	131,100	346,390	720,022	1,197,512
Commitments for leases and supplies and services (Note 13)	94	290	32	416
Total	$ 2,335,734	$ 4,388,411	$ 13,405,249	$ 20,129,394

(a) Comprised of contractual principal of $1,560,000 (2019 - $1,950,000) net of discounts on short-term notes of $601 (2019 - $7,999).

(b) Where the amount of interest is not fixed, as is the case for issued debt with a variable interest rate or for the floating leg of a loan swap, the amounts included in the above table are an estimate and have been determined by reference to the conditions existing at the reporting date.

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk. Foreign currencies are translated at the foreign exchange rate at the reporting date.

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Estimated Future Cash In Flows	October 31, 2020 to October 30, 2021	October 31, 2021 to October 30, 2024	October 31, 2024 and after	Total
Accounts receivable	$ 40	$ -	$ -	$ 40
Loans, contractual collection of principal (a)	906,718	2,493,810	12,509,485	15,910,013
Loans, contractual receipts of interest (a)	552,344	1,469,458	3,449,679	5,471,481
Debt swaps (receive fixed, pay floating) (a) (b)	20,343	118,609	343,208	482,160
Total	$ 1,479,445	$ 4,081,877	$ 16,302,372	$ 21,863,694

(a) The amounts presented represent the contractual collection of principal and interest, and assumes no loan prepayments or credit default by local authorities and no credit default by counterparties.
(b) Where the amount of interest is not fixed, as is the case for the floating leg of a debt swap, the amounts included in the above table are an estimate and have been determined by reference to the conditions existing at the reporting date.

Refinancing Risk

Refinancing risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to refinancing. Refinancing risk arises as local authorities may terminate loans with prepayment fee and refinance at current interest rates. ACFA manages this risk by monitoring the contractual maturities and durations of its loan and debt portfolios; by charging a prepayment fee to local authorities in accordance with the Stop-Loss Settlement Policy; and raising debt in capital markets, either domestic or foreign, at the best possible interest rate utilizing the Province of Alberta's credit rating.

Foreign Currency Risk

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at October 30, 2020, ACFA held foreign currency denominated debt as shown on the table below:

	October 30, 2020		December 31, 2019	
Currency	Foreign Currency Notional	Canadian dollar carrying value at October 30	Foreign Currency Notional	Canadian dollar carrying value at December 31
Australian Dollar	$ 485,000	$ 454,494	$ 485,000	$ 442,417
European Euro	€ 225,000	$ 349,492	€ 225,000	$ 328,118
Norwegian Krone	kr 2,000,000	$ 279,400	kr -	$ -
Swedish Krona	kr 1,400,000	$ 209,720	kr 1,400,000	$ 195,160
United Kingdom Pound Sterling	£ 650,000	$ 1,121,510	£ 650,000	$ 1,116,310
United States Dollar	$ 1,800,000	$ 2,397,240	$ 600,000	$ 779,280

Foreign currency denominated debt instruments require ACFA to make all periodic payments of interest expense, as well as the repayment of the aggregate principal balance due at maturity, in the respective foreign currency. As such, any changes in the foreign currency exchange rate from the date the foreign currency denominated debt instruments were issued to the date those debt instruments mature, expose ACFA to foreign currency risk.

To manage the exposure to foreign currency risk on the foreign currency denominated debt instruments, ACFA has obtained cross currency interest rate swaps with the same payment terms, payment dates, maturity dates and notional values as the foreign currency denominated debt instruments. In exchange for payments of interest and principal denominated in Canadian dollars, the

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cross currency interest rate swaps entitle ACFA to receive all the amounts necessary to satisfy the periodic payments of interest expense and the aggregate principal balance due at maturity on the foreign currency denominated debt instruments.

Because of this, any changes in the amount of cash required to satisfy the periodic settlement of interest expense throughout the term of the foreign currency debt instruments as well as the principal repayment required at maturity, will be offset by the cash provided from the respective cross currency interest rate swaps, regardless of the changes in the foreign exchange rate of the respective currency versus the Canadian dollar.

As at October 30, 2020, ACFA has no other financial instruments that are exposed to foreign currency risk.

Note 12 – Contractual Obligations and Commitments

Lease

ACFA has obligations under an operating lease expiring on February 28, 2025 for the rental of premises, and various other obligations for supplies and services under contracts entered into before October 30, 2020. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

Ending October 30 of Year	Supplies and Services	Lease
2021	$ 1	$ 93
2022	-	96
2023	-	97
2024	-	97
2025 and after	-	32
Total	$ 1	$ 415

Note 13 – Subsequent Event

Due to the ongoing COVID-19 pandemic and sustained public health measures and restrictions, the Authority's borrowers face continued adversity and future uncertainty. Management continues to monitor collectability, covenants and overall impairment related to the loan portfolio and to work with borrowers to explore deferral and restructuring arrangements as required. At this time no borrowers have defaulted on payment and no loans are considered impaired.

Note 14 – Budget

The 2020 budget was approved by the Director on January 8, 2020. Budget amounts for 2020 were prepared on an amortized cost basis and remeasurement gains and losses on derivatives were not budgeted.

Note 15 – Approval of Financial Statements

The financial statements were recommended for approval by the Treasurer on March 25, 2021 and subsequently approved by the Director on March 25, 2021.

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SCHEDULE 1 - DEBT
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Maturity Date	Interest Rate	Type	Notes		Contractual Principal Outstanding
Short-term:					
November 3, 2020	0.1843%	Short-term	(b)	$	175,000
November 10, 2020	0.1761%	Short-term	(b)		175,000
November 24, 2020	0.1695%	Short-term	(b)		200,000
December 1, 2020	0.1665%	Short-term	(b)		200,000
December 1, 2020	0.0961%	Short-term	(b)		10,000
January 5, 2021	0.0963%	Short-term	(b)		50,000
January 12, 2021	0.0817%	Short-term	(b)		200,000
January 19, 2021	0.0687%	Short-term	(b)		200,000
January 26, 2021	0.0607%	Short-term	(b)		200,000
April 1, 2021	0.2108%	Short-term	(b)		150,000
					1,560,000
Floating and Fixed:					
November 15, 2021	1.0000%	Fixed	(b) (f)		1,121,510
June 1, 2022	6.0600%	Fixed			100,000
September 1, 2022	1.6000%	Fixed	(b)		300,000
December 8, 2022	2.4400%	Floating	(a) (b)		279,400
December 15, 2022	2.5500%	Fixed	(b)		720,000
December 15, 2022	2.5500%	Fixed	(b)		600,000
April 5, 2023	5.8900%	Fixed			50,000
December 1, 2023	5.5000%	Fixed			150,000
December 1, 2023	5.1000%	Fixed			20,000
December 3, 2024	5.1800%	Fixed			78,000
May 20, 2025	1.0000%	Fixed	(b)(c)		1,598,160
December 15, 2025	4.4500%	Fixed			100,000
December 15, 2025	4.4500%	Fixed			100,000
December 15, 2025	4.4500%	Fixed			100,000
June 1, 2026	2.2000%	Fixed	(b)		300,000
August 17, 2026	2.0500%	Fixed	(b)(c)		799,080
November 3, 2026	4.4900%	Fixed			200,000
December 14, 2026	3.1000%	Fixed	(b) (d)		117,138
December 14, 2026	3.1000%	Fixed	(b) (d)		46,855
June 1, 2027	2.5500%	Fixed	(b)		300,000
June 1, 2027	2.5500%	Fixed	(b)		350,000
June 1, 2027	2.5500%	Fixed	(b)		300,000
April 11, 2028	3.6000%	Fixed	(b) (d)		234,275
April 11, 2028	3.6000%	Fixed	(b) (d)		56,226
December 1, 2028	2.9000%	Fixed	(b)		900,000

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SCHEDULE 1 - DEBT
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Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
December 1, 2028	2.9000%	Fixed	(b)	500,000
February 20, 2029	1.4025%	Fixed	(b) (g)	209,720
September 20, 2029	2.9000%	Fixed	(b)	30,000
September 20, 2029	2.9000%	Fixed	(b)	170,000
September 20, 2029	2.9000%	Fixed	(b)	50,000
September 20, 2029	2.9000%	Fixed	(b)	50,000
September 20, 2029	2.9000%	Fixed	(b)	150,000
June 1, 2030	2.0500%	Fixed	(b)	250,000
June 1, 2030	2.0500%	Fixed	(b)	200,000
June 1, 2031	3.5000%	Fixed	(b)	1,268,000
November 3, 2031	4.5000%	Fixed		125,396
November 2, 2032	4.8300%	Fixed		190,383
December 1, 2033	3.9000%	Fixed	(b)	200,000
December 1, 2033	3.9000%	Fixed	(b)	110,000
December 1, 2033	3.9000%	Fixed	(b)	215,000
December 1, 2033	3.9000%	Fixed	(b)	225,000
December 1, 2033	3.9000%	Fixed	(b)	110,000
December 1, 2033	3.9000%	Fixed	(b)	140,000
November 2, 2037	3.1680%	Fixed	(b)	60,000
December 1, 2043	1.1500%	Fixed	(b) (e)	271,827
December 1, 2043	1.1500%	Fixed	(b) (e)	77,665
December 1, 2048	3.0500%	Fixed	(b)	200,000
December 1, 2048	3.0500%	Fixed	(b)	200,000
December 1, 2048	3.0500%	Fixed	(b)	200,000
				14,123,635

Total contractual principal outstanding – October 30, 2020	15,683,635
Unamortized net discounts	(39,334)
Unamortized commission fees	(19,534)
Total amortized debt – October 30, 2020	$ 15,624,767
Total contractual principal outstanding – December 31,2019	15,725,431
Unamortized net discounts	(46,801)
Unamortized commission fees	(21,403)
Total amortized debt – December 31, 2019	$ 15,657,227

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SCHEDULE 1 - DEBT
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Notes:

a) Floating rate note issued in Norwegian Krone that pays interest quarterly at the Norwegian Inter-Bank Offered rate plus predetermined spreads with principal paid on termination. The interest rates provided are based on the NIBOR as of the reporting date plus the contractual predetermined spread.

b) Notes were on-lent from the Province of Alberta.

c) Note issued in US dollars and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

d) Note issued in Australian dollars and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

e) Note issued in as European Union Euros and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

f) Note issued in UK Pounds Sterling and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

g) Note issued in Swedish Krona and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

Alberta Insurance Council

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INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

Opinion

We have audited the financial statements of Alberta Insurance Council (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in Alberta Insurance Council's Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Alberta Insurance Council's Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

KPMG

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Original signed by]

Chartered Professional Accountants

Edmonton, Canada
April 15, 2021

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 3,774,975	$ 4,943,658
Accounts receivable	810,215	51,210
Investments (note 3)	7,135,199	6,048,996
Prepaid expenses	267,779	178,823
	11,988,168	11,222,687
Capital assets (note 4)	1,785,902	577,892
Other assets (note 5)	381,740	10,016
	$ 14,155,810	$ 11,810,595
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 681,016	$ 488,359
Deferred revenue (note 6)	3,235,206	3,176,700
Current portion deferred rent and tenant inducements (note 8)	184,112	95,550
	4,100,334	3,760,609
Asset retirement obligation (note 7)	170,803	115,457
Deferred rent and tenant inducements (note 8)	1,102,036	44,066
	5,373,173	3,920,132
Net assets:		
Invested in capital assets (note 9)	595,868	396,841
Internally restricted	-	1,300,000
Unrestricted	8,186,769	6,193,622
	8,782,637	7,890,463
	$ 14,155,810	$ 11,810,595

See accompanying notes to financial statements.

Original signed by Chair, Audit Committee

Original signed by Chair, Alberta Insurance Council

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2020, with comparative information for 2019

	2020 Budget	2020	2019
Revenue:			
License, assessment, examination and continuing education fees (note 11)	$ 7,249,000	$ 7,686,077	$ 7,291,627
Interest and other	151,000	157,262	179,690
	7,400,000	7,843,339	7,471,317
Expenses:			
Manpower	3,998,000	3,824,906	3,627,132
Occupancy and premises	921,000	1,070,747	757,818
Amortization of capital assets	377,000	331,687	325,126
Councils, boards and committees (note 12)	475,000	352,868	461,235
Software and computer	375,000	387,405	273,336
Office and administration	442,000	408,460	368,374
Professional fees	387,000	360,354	395,724
Communications	232,000	168,329	172,089
Travel	175,000	40,307	145,471
Loss on disposal of capital assets	-	6,102	6,914
	7,382,000	6,951,165	6,533,219
Excess of revenue over expenses	$ 18,000	$ 892,174	$ 938,098

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2020, with comparative information for 2019

	Invested in capital assets	Internally restricted	Unrestricted	2020
Net assets, beginning of year	$ 396,841	$ 1,300,000	$ 6,193,622	$ 7,890,463
Excess of revenue over expenses	-	-	892,174	892,174
Net change in invested in capital assets (note 9)	199,027	-	(199,027)	-
Transfers to unrestricted	-	(1,300,000)	1,300,000	-
Net assets, end of year	$ 595,868	$ -	$ 8,186,769	$ 8,782,637

	Invested in capital assets	Internally restricted	Unrestricted	2019
Net assets beginning of year	$ 492,521	$ 1,300,000	$ 5,159,844	$ 6,952,365
Excess of revenue over expenses	-	-	938,098	938,098
Net change in invested in capital assets (note 9)	(95,680)	-	95,680	-
Net assets, end of year	$ 396,841	$ 1,300,000	$ 6,193,622	$ 7,890,463

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 892,174	$ 938,098
Items not involving cash:		
Accretion of asset retirement obligation	1,645	1,526
Amortization of deferred tenant inducements	(71,832)	(54,635)
Recognition of deferred rent	192,895	(32,390)
Remeasurement of asset retirement obligation	(17,897)	-
Amortization of capital assets	331,687	325,126
Loss on disposal of capital assets	6,102	6,914
Increase in accounts receivable	(759,005)	(13,953)
Increase in prepaid expenses	(88,956)	(84,280)
Increase in accounts payable and accrued liabilities	192,657	46,304
(Increase) decrease in other assets	(371,724)	14,984
Increase in deferred revenue	58,506	298,092
	366,252	1,445,786
Capital activities:		
Purchase of investments	(5,086,199)	(6,048,996)
Redemptions of investments	3,999,996	3,999,998
Purchase of capital assets	(1,546,524)	(187,081)
Increase in asset retirement obligation	76,600	-
Tenant inducements receivable	1,025,469	-
Proceeds on sale of capital assets	725	3,830
Asset retirement costs incurred in year	(5,002)	-
	(1,534,935)	(2,232,249)
Decrease in cash and cash equivalents	(1,168,683)	(786,463)
Cash and cash equivalents, beginning of year	4,943,658	5,730,121
Cash and cash equivalents, end of year	$ 3,774,975	$ 4,943,658

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2020

Authority and purpose:

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the 4200 standards which apply to government not-for-profit organizations. The Council's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition. These financial assets are convertible to cash at the request of the Council.

(b) Revenue recognition:

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

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(c) Capital assets and amortization:

Capital assets are recorded at cost. Amortization is provided using the straight-line method over their estimated useful lives as follows:

Asset	Rate
Leasehold improvements	Term of lease
Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Computer software	3 - 7 years
Telephone equipment	3 - 5 years

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(f) Internally restricted net assets:

Internally restricted net assets were established to fund capital asset additions and maintenance costs over the medium term. In 2019, the provision was increased to provide for the anticipated costs of acquiring new space.

New premises were acquired in 2020 for the Council's Edmonton and Calgary locations. As a result, the Council approved a transfer of the internally restricted net assets to unrestricted net assets during the year ended December 31, 2020. Capital expenditures related to the new premises were funded out of unrestricted net assets.

(g) 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.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at cost.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(h) Financial instruments (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

(i) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of capital assets and asset retirement obligations. Actual results could differ from those estimates.

(j) Future accounting standard pronouncements:

The following summarizes upcoming changes to public sector accounting standards. In 2020, the Council will continue to assess the impact and prepare for the adoption of these standards. While the timing of standard adoption may vary, the requirements of PS1201 *Financial Statement Presentation*, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation* and PS3041 *Portfolio Investments* must be implemented at the same time.

Standard	Effective date (fiscal years beginning on or after)
PS1201 - Financial Statement Presentation	April 1, 2022
PS3450 - Financial Instruments	April 1, 2022
PS2601 - Foreign Currency Translation	April 1, 2022
PS3041 - Portfolio Investments	April 1, 2022
PS3280 - Asset Retirement Obligations	April 1, 2021
PS3400 - Revenue	April 1, 2023

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of $4,401 (2019 - $3,321,998) invested in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The average interest rate during the year ended December 31, 2020 was 0.90% (2019 - 1.87%).

3. Investments:

Investments consist of Guaranteed Investment Certificates (GIC's) with fixed annual interest rates ranging from 0.45% to 2.20% and maturity dates ranging from March 2021 to June 2021.

4. Capital assets:

			2020	2019
	Cost	Accumulated amortization	Net book value	Net book value
Leasehold improvements	$ 2,068,324	$ 997,783	$ 1,070,541	$ 140,731
Furniture and office equipment	606,858	316,032	290,826	95,307
Computer equipment	574,745	359,404	215,341	168,777
Computer software	896,322	788,805	107,517	126,048
Asset retirement obligation	185,500	92,632	92,868	37,173
Telephone equipment	24,353	15,544	8,809	9,856
	$ 4,356,102	$ 2,570,200	$ 1,785,902	$ 577,892

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Other assets:

Included in other assets is a receivable of $243,700 (2019 - $nil), related to the tenant inducements recognized in the year (note 7). It is the Council's expectation that this receivable will be collected in fiscal 2022.

6. Deferred revenue:

	2020	2019
License[(a)]	$ 3,102,831	$ 3,088,825
Assessment	78,375	81,375
Examination	47,000	-
Continuing education	7,000	6,500
	$ 3,235,206	$ 3,176,700

(a) License terms commence July 1 and remain in effect until June 30 of the following year.

7. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Bell Tower and Manulife Place in Edmonton, and Touchstone Place and Jamieson Place in Calgary, to remove improvements made to these premises upon termination of the leases.

In October 2020, the Council moved some of their Calgary operations from Touchstone Place to Jamieson Place. The Touchstone Place location will remain in use as an examination centre until late 2021.

In November 2020, the Council moved its Edmonton premises from Bell Tower to Manulife Place. Pursuant to decommissioning costs incurred to December 31, 2020 and decommissioning estimates obtained, the asset retirement obligation (ARO) for the Bell Tower space was reduced from the original estimate of $68,000 to $45,000.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

7. Asset retirement obligation (continued):

As at December 31, 2020, the estimated undiscounted estimate for the ARO is $180,000 (2019 - $118,000). The ARO's present values have been calculated using a discount rate during the year of 0.90% (2019 - 1.87%) and the expected timing of settlement is between 1 to 12 years (2019 - 2 years). The specific provisions regarding the Council's ARO are as follows:

	Bell Tower	Manulife Place	Touchstone Place	Jamieson Place	Total
ARO, January 1, 2019	$ 66,679	$ -	$ 47,252	$ -	$ 113,931
Accretion	610	-	916	-	1,526
ARO, December 31, 2019	67,289	-	48,168	-	115,457
Liabilities incurred	-	41,100	-	35,500	76,600
Liabilities settled	(5,002)	-	-	-	(5,002)
Remeasurement of ARO	(17,897)	-	-	-	(17,897)
Accretion	610	48	916	71	1,645
	(22,289)	41,148	916	35,571	55,346
ARO, December 31, 2020	$ 45,000	$ 41,148	$ 49,084	$ 35,571	$ 170,803

The estimated carrying value of the leasehold improvements is $1,070,541 (2019 - $140,731). Amortization on leasehold improvements of $90,923 (2019 - $74,035) is included in amortization of capital assets.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

8. Deferred rent and tenant inducements:

	2020	2019
Deferred rent and tenant inducements, beginning of year	$ 139,616	$ 226,641
Leasehold improvement allowance received in the year	1,025,468	-
Rent free fixturing period	233,812	-
Amortization of deferred rent and tenant inducements	(112,748)	(87,025)
Deferred rent and tenant inducements	1,286,148	139,616
Less: current portion deferred rent and tenant inducements	(184,112)	(95,550)
	$ 1,102,036	$ 44,066

9. Invested in capital assets:

(a) Invested in capital assets consists of the following:

	2020	2019
Capital assets	$ 1,785,902	$ 577,892
Asset retirement obligation	(170,803)	(115,457)
Deferred tenant inducements	(1,019,231)	(65,594)
	$ 595,868	$ 396,841

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

9. Invested in capital assets (continued):

(b) Change in net assets invested in capital assets is calculated as follows:

	2020	2019
Net change in investment in capital assets:		
Amortization of capital assets	$ (331,687)	$ (325,126)
Purchase of capital assets	1,546,524	187,081
Increase in tenant inducements	(1,025,469)	-
Amortization of deferred tenant inducements	71,832	54,635
Increase in asset retirement obligation, net (note 7)	(55,346)	(1,526)
Proceeds on sale of capital assets	(725)	(3,830)
Loss from disposal of capital assets	(6,102)	(6,914)
	$ 199,027	$ (95,680)

10. Commitments and contingencies:

The Council is committed under existing lease agreements and contracted services for operating lease payments. The annual lease payments over the next five years and thereafter are as follows:

2021	$ 418,444
2022	409,163
2023	409,163
2024	437,816
2025	437,816
Thereafter	3,212,141

The Council is also responsible for its share of operating costs related to the office premises leases. These costs are not fixed within the lease and are subject to change on a year to year basis.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

10. Commitments and contingencies (continued):

The Council has been named as a defendant in three legal actions. The first action relates to a claim for damages in the amount of $10 million, which in management's opinion, the legal action brought forward lacks merit. The other actions relate to two former employees seeking damages in the amount of $200,000 plus costs. The Council has adequate insurance to cover these legal proceedings and a provision of $51,500 (2019 - $35,000) has been included in these financial statements to cover costs including the insurance deductible related to these actions. Consequently, any settlements reached are not expected to have a material adverse effect on the financial position of the Council.

11. License, assessment, examination and continuing education fees:

Revenue from license, assessment, examination and continuing education fees consists of the following:

	2020	2019
License fees	$ 6,525,452	$ 6,141,680
Assessment fees	162,375	170,625
Examination fees	779,650	746,222
Continuing education fees	218,600	233,100
	$ 7,686,077	$ 7,291,627

12. Councils, boards and committees:

(a) The following amounts are included in Councils, boards and committees expenses:

	2020	2019
Councils and Council Committees	$ 226,422	$ 272,328
Appeal Boards	55,162	100,710
Accreditation Committee	71,284	88,197
	$ 352,868	$ 461,235

The Minister of Finance, responsible for the Insurance Act, has appointed the members of the Alberta Accreditation Committee (AAC), provided for in Section 29 of the Insurance Agents and Adjusters Regulation. The Council funds the operations of and provides administrative services to the ACC.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

12. Councils, boards and committees (continued):

(b) Per diem payments of Council Members:

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

	Number of members	2020[ii] $	Number of members	2019[ii] $
Councils[i]				
Chairs	9	101,141	12	102,985
Members	42	188,007	41	183,765
Total	51	289,148	53	286,750

(i) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Human Resources Committee, the AIC Chair annual stipend, the Appeal Boards, and the Alberta Accreditation Committee.

(ii) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from insurance licenses and continuing education course accreditation fees. This includes public members appointed by the Lieutenant Governor in Council, as well as Alberta Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

13. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2020 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2019.

(b) Liquidity risk:

Liquidity risk is the risk that the Council will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Council manages its liquidity risk by monitoring its operating requirements. The Council prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2019.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through its interest-bearing deposit in the CCITF, and certain short-term fixed rate investments. Details of these investments are included in notes 2 and 3 of the financial statements.

There have been no significant changes to the interest rate risk exposure from 2019.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2020

14. Impact of COVID-19:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. The current challenging economic climate has not caused a significant adverse change in operating results, cash flows, and financial position of the Council. In response to the ongoing pandemic, the Council has undertaken the following:

- Where feasible, staff have been encouraged to work from home. Provincial rules around social distancing are being enforced for all staff;
- Personal protective equipment has been provided to individuals in exam rooms; and
- Development of online exams is ongoing for the next fiscal period.

15. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

Alberta Investment Management Corporation

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Investment Management Corporation (the Corporation), which comprise the statement of financial position as at March 31, 2021, and the statements of operations, change in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2021, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 3, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, (*Thousands of Canadian dollars*)	**2021**	**2020**
Financial assets		
Cash and cash equivalents (Note 5)	$ 53,964	$ 77,661
Accounts receivable	24,653	8,364
Other assets	2,416	2,416
	81,033	88,441
Liabilities		
Accounts payable and accrued liabilities	9,677	11,132
Accrued employment liabilities (Note 6)	74,671	85,220
Advance from the Province of Alberta (Note 7)	58,349	58,349
Pension liabilities (Note 8)	4,813	4,287
Deferred lease inducement (Note 15)	1,752	1,911
	149,262	160,899
Net debt	(68,229)	(72,458)
Non-financial assets		
Tangible capital assets (Note 9)	60,697	66,978
Prepaid expenses	11,179	9,127
	71,876	76,105
Net assets (Note 10)	$ 3,647	$ 3,647

Contractual obligations (Note 15)

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by

Mark Wiseman
Board Chair

Original signed by

Tom Woods
Audit Committee Chair

Statement of Operations

For the year ended March 31, (*Thousands of Canadian dollars*)	**2021 Budget (Note 16)**	**2021**	**2020**
Revenue			
Cost recoveries	$ 529,675	$ 748,375	$ 582,840
Interest income	-	147	1,193
Total revenue	529,675	748,522	584,033
Expenses			
Third-party performance fees (Note 11)	63,807	313,059	177,797
Third-party investment management fees (Note 11)	246,860	229,935	214,408
Third-party other fees (Note 11)	24,973	16,926	22,606
Salaries, wages and benefits	114,696	115,449	93,833
Business technology and data services	33,320	32,732	31,656
Amortization of tangible capital assets (Note 9)	18,509	17,151	16,539
Contract and professional services	8,180	9,373	10,534
Rent	9,323	8,858	8,012
Administrative expenses	8,837	4,750	7,484
Interest	1,170	289	1,164
Total expenses	529,675	748,522	584,033
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Change in Net Debt

For the year ended March 31, (*Thousands of Canadian dollars*)	**2021 Budget (Note 16)**	**2021**	**2020**
Annual surplus	$ -	$ -	$ -
Acquisition of tangible capital assets (Note 9)	(14,017)	(10,963)	(18,259)
Write-downs of tangible capital assets (Note 9)	-	93	129
Amortization of tangible capital assets (Note 9)	18,509	17,151	16,539
Change in prepaid expenses	-	(2,052)	134
Decrease (Increase) in net debt in the year	4,492	4,229	(1,457)
Net debt at beginning of year	(72,458)	(72,458)	(71,001)
Net debt at end of year	$ (67,966)	$ (68,229)	$ (72,458)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*Thousands of Canadian dollars*)	**2021**	**2020**
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets (Note 9)	17,151	16,539
Write-downs of tangible capital assets (Note 9)	93	129
Amortization of deferred lease inducement (Note 15)	(159)	(388)
Change in pension liabilities	526	341
	17,611	16,621
(Increase) Decrease in accounts receivable	(16,289)	9,065
(Increase) Decrease in prepaid expenses	(2,052)	134
(Decrease) Increase in accounts payable and accrued liabilities	(1,455)	1,607
Decrease in accrued employment liabilities	(10,549)	(32,632)
Cash applied to operating transactions	(12,734)	(5,205)
Capital transactions		
Acquisition of tangible capital assets (Note 9)	(10,963)	(18,259)
Cash applied to capital transactions	(10,963)	(18,259)
Financing transactions		
Repayment of advance from the Province of Alberta	-	-
Cash applied to financing transactions	-	-
Decrease in cash and cash equivalents	(23,697)	(23,464)
Cash and cash equivalents at beginning of year	77,661	101,125
Cash and cash equivalents at end of year	$ 53,964	$ 77,661
Supplementary information		
Cash used for interest	$ 125	$ 987

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2021 (Thousands of Canadian dollars, except where otherwise noted)

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 Corporation 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 under the *Income Tax Act*.

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 Alberta's Ministry of Treasury Board and Finance for which the President of Treasury Board and Minister of Finance is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of $129.9 billion (2020: $110.0 billion) at March 31, 2021, see Note 12. These assets are invested in segregated investments owned by clients 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 Corporation is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no share in the expected benefits or the risk of loss in the entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all expenses on a cost-recovery basis. The Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS) and include the following significant accounting policies:

a) Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. Third-party investment management fees, which are recorded as $229,935 (2020: $214,408), third-party performance fees, which are recorded as $313,059 (2020: $177,797), accrued employment liabilities, which are recorded as $74,671 (2020: $85,220) and pension liabilities, which are recorded as $4,813 (2020: $4,287) in these financial statements, are subject to measurement uncertainty. Third-party investment costs include estimates of management and performance fees that are based upon specified rates and commitment levels in the investment management agreements. Accrued employment liabilities include estimates of performance compensation that are tied to asset class and total fund value-add performance. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 8 for a description of the key assumptions and how a change in the assumptions can impact the reported pension liabilities.

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 may 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,

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

pension plan, and pooled fund's respective share of the Corporation's operating costs. The indirect charges are primarily allocated based on assets under management and head count.

b) Revenue Recognition (continued)

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 and indirect costs. No Reserve Funds have been established to date.

c) Expenses

Expenses are reported on an accrual basis and the cost of all goods consumed and services received during the year is expensed.

Third-party investment costs include third-party investment management and performance-based fees, as well as other expenses incurred on behalf of the Corporation's clients, also disclosed in Note 11.

Interest expense is comprised primarily of debt servicing costs on the advance from the Province of Alberta.

d) Financial Assets

Financial assets are the Corporation's financial claims on external organizations and individuals.

<u>Cash and Cash Equivalents</u>
Cash and cash equivalents are recognized at cost, which is equivalent to their fair value, and include short-term and mid-term liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. The Corporation has access to these investments with no restrictions.

<u>Accounts Receivable</u>
Accounts receivable are unsecured, non-interest bearing and are recognized at the lower of cost or net recoverable value. Provision for doubtful accounts are made to reflect accounts receivable at the lower of cost and net recoverable value, when collectability and risk of loss exists. Changes in doubtful accounts are recognized in administrative expenses in the Statement of Operations (2021 and 2020: $nil).

<u>Other Assets</u>
Other assets are valued at the lower of cost and net recoverable value.

e) Liabilities

Liabilities are recorded at cost to the extent that they represent present obligations as a result of past events and transactions occurring prior to the end of the fiscal year, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:
- all financial claims payable by the Corporation at year-end;
- accrued employee vacations entitlements and other benefits;
- deferred lease inducement; and
- contingent liabilities where future liabilities are likely.

Advance from the Province of Alberta and pension liabilities are recognized at amortized cost.

f) Non-Financial Assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver services;

(b) may be consumed in the normal course of operations; and
(c) are not for sale in the normal course of operations.

Non-financial assets are limited to tangible capital assets and prepaid expenses.

f) Non-Financial Assets (continued)

Tangible Capital Assets
Tangible capital assets are recognized at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. 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.

Work in progress, which includes development of operating systems, is not amortized until after a project is complete (or substantially complete) and the asset is put into service.

The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

Computer systems hardware and software	5 to 10 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The write-downs of $93 (2020: $129) are accounted for as expenses in the Statement of Operations.

Prepaid Expenses
Prepaid expenses are recorded at cost and recognized over the terms of the agreements.

g) Valuation of Financial Assets and Liabilities

All financial assets and liabilities are measured at cost or amortized cost. The Corporation does not own any financial instruments designated in the fair value category and as such a Statement of Remeasurement Gains and Losses has not been included in the financial statements.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are reported in the Statement of Operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

The Corporation does not own any derivative financial instruments.

h) Employment Benefits

The Corporation participates in multi-employer defined benefit plans that meet the accounting requirements for treatment as defined contribution plans. The Corporation also participates in defined contribution pension plans. Employer contributions are expensed as incurred.

On January 1, 2010, the Corporation established a new Supplementary Retirement Plan (SRP) for those individuals required to withdraw from the existing SRP for Public Service Managers. This pension plan is accounted for using the projected-benefits method pro-rated on service to account for the cost of the defined benefit pension plan. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation, inflation 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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

h) Employment Benefits (continued)

assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses and transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

The Corporation provides retention incentives to certain employees through a Long-Term Incentive Plan (LTIP) and a Restricted Fund Unit Plan (RFU). The potential end value of these grants, if and when vested, fluctuate over the vesting period based on achievement of certain performance factors and are expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the grants are remeasured at each reporting period based on changes in the intrinsic values of the grants, such that the cumulative amount of the liability will equal the potential payout at that date. Any gains or losses on remeasurement are reported in the Statement of Operations. For any forfeiture of the grants, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

i) 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 their Canadian dollar equivalents using the Bank of Canada exchange rate prevailing at the transaction dates.

NOTE 4 FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board issued the following accounting standards:

PS 3280 Asset Retirement Obligations (effective April 1, 2022)
This standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset. Management is currently assessing the impact of this standard on the financial statements.

PS 3400 Revenue (effective April 1, 2023)
This standard provides guidance on how to account and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. Management is currently assessing the impact of this standard on the financial statements.

PSG-8 Purchased intangibles (effective April 1, 2023)
This new guideline explains the scope of the intangibles allowed to be recognized in financial statements given the removal of the recognition prohibition relating to purchased intangibles in Section PS 1000. Management is currently assessing the impact of this guideline on the financial statements.

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

As at March 31, *(Thousands of Canadian dollars)*	**2021**	**2020**
Deposit in Consolidated Cash Investment Trust Fund	$ 53,819	$ 77,073
US bank account	63	49
British Pound Sterling bank account	82	539
	$ 53,964	$ 77,661

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, 2021, securities held by the Fund have a time-weighted return of 0.42% per annum (2020: 1.52% per annum).

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES

As at March 31, *(Thousands of Canadian dollars)*	**2021**	**2020**
Annual incentive plan (a)	$ 32,725	$ 35,093
Long-term incentive plan (b)	34,844	46,832
Restricted fund unit incentive plan (c)	334	300
Accrued vacation, salaries and benefits	6,768	2,995
	$ 74,671	$ 85,220

a) Annual Incentive Plan

Variable pay per the Corporation's Annual Incentive Plan (AIP) 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-add and include a component for achievement of annual individual objectives. Value-add is the net incremental return from active management. The Chief Executive Officer may also make limited discretionary awards.

Total expense related to the AIP for the year ended March 31, 2021 was $26,785 (2020: $27,845) which was recorded in salaries, wages and benefits.

b) Long-Term Incentive Plan

The Corporation provides retention incentives to certain employees through an LTIP and an RFU plan. The LTIP program provides the opportunity for a performance payment for generating superior average value-add over a four-year period. Officers and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance and vest at the end of the fourth calendar period subsequent to the grant date. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they vest after four years and providing all vesting and plan conditions have been met by the employee, they will pay between zero and three times the size of the grant based on performance over the four-year vesting period. The maximum amount could be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. The target and stretch target for the 2021 calendar year is $325,000 and $974,000, respectively.

Information about the target, stretch target, and actual results achieved for the last four calendar years is as follows:

(Thousands of Canadian dollars)

	Target	**Stretch Target**	**Value Add (Loss) for Compensation Purposes**
2017	258,333	775,000	1,099,500
2018	267,667	803,000	939,500
2019	296,000	888,000	(522,100)
2020	334,500	1,003,000	(5,488,750)

If the average four-year value-add exceeds the average stretch target annually set by the Board, employees have the potential to receive a Special LTIP grant at the vesting date. This Special LTIP grant, which cannot exceed the original grant, has a new four-year vesting period and is subject to the same parameters and plan conditions as regular LTIP grants. Strong performance in certain asset classes since the first grants were awarded have resulted in the potential for Special LTIP grants. A Special LTIP grant was awarded in the current year at $nil (2020: $2,884).

The accrued LTIP liability as at March 31, 2021 of $34,844 (2020: $46,832) reflects the current value of all outstanding LTIP grants, based on actual results to that date from the date they were awarded, and using a pro forma multiplier of 1.0 (target) for calendar year 2021 and all future years.

Information about total LTIP grants awarded and outstanding is as follows:

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES (continued)

b) Long-Term Incentive Plan (continued)

For the year ended March 31, *(Thousands of Canadian dollars)*	**2021** Original (Notional) Value		**2020** Original (Notional) Value	
LTIP grants outstanding, beginning of year	$ 64,176	$ 46,832	$ 61,634	$ 73,734
Granted	13,712	874	14,297	-
Accrual	-	12,577	-	834
Forfeited	(4,118)	(451)	(3,294)	(2,464)
Paid	(10,368)	(24,988)	(8,461)	(25,272)
LTIP grants outstanding, end of year	$ 63,402	$ 34,844	$ 64,176	$ 46,832

The maximum potential obligation related to the LTIP as at March 31, 2021 was $190,206 (2020: $192,528). Total expenses related to the LTIP for the year ended March 31, 2021 was $13,000 (2020: claw back of ($1,629)), which was recorded in salaries, wages and benefits.

c) Restricted Fund Unit Incentive Plan

The RFU program is a supplementary compensation plan based on a notional investment in the total assets under administration, where the value fluctuates based on the total rate of return. Unlike the LTIP grants, rates of return relative to benchmark do not impact the value of the RFUs. RFUs have time horizons of one to three years for vesting provisions. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments.

The accrued RFU liability as at March 31, 2021 of $334 (2020: $300) reflects the current value of all outstanding RFU grants, based on actual results to that date from the date they were awarded.

Information about total RFU grants awarded and outstanding is as follows:

For the year ended March 31, *(Thousands of Canadian dollars)*	**2021** Notional Value		**2020** Notional Value	
RFU grants outstanding, beginning of year	$ 315	$ 300	$ 907	$ 910
Granted	565	135	135	135
Accrual	-	59	-	65
Paid	(143)	(160)	(727)	(810)
RFU grants outstanding, end of year	$ 737	$ 334	$ 315	$ 300

Total expense related to the RFU plan for the year ended March 31, 2021 was $194 (2020: $199) which was recorded in salaries, wages and benefits.

NOTE 7 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 219/2012 and in accordance with the loan advance agreement, the Corporation has not received advances from the Province of Alberta for the year ended March 31, 2021 (2020: $nil). As at March 31, 2021, the outstanding advance from the Province totaled $58,349 (2020: $58,349).

The advance is a revolving demand credit facility up to a maximum of $70,000. The advance is repayable within six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.21% (2020: 1.69%). Interest expense on the advance is $125 (2020: $987) and is included in the Statement of Operations. At March 31, 2021, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 8 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

As at and for the year ended March 31, *(Thousands of Canadian dollars)*	**2021**	**2020**
Accrued retirement obligation		
Beginning of year	$ 9,831	$ 7,754
Current service cost	430	512
Interest cost	250	260
Benefits paid	(76)	(41)
Actuarial loss	528	1,346
End of year	10,963	9,831
Plan assets		
Fair value, beginning of year	3,445	3,282
Actual return (loss) on plan assets	450	(166)
Employer contributions	129	185
Employee contributions	129	185
Benefits paid	(76)	(41)
End of year	4,077	3,445
Funded status - plan deficit	(6,886)	(6,386)
Unamortized net actuarial loss	2,073	2,099
Reported liability	$ (4,813)	$ (4,287)
Current service cost	430	512
Interest cost	250	260
Expected return on plan assets	(87)	(109)
Amortization of net actuarial loss	191	48
Less: employee contributions	(129)	(185)
Total SRP expense	$ 655	$ 526

The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. An actuarial valuation for funding purposes was prepared as of December 31, 2018. An extrapolation of the actuarial valuation dated December 31, 2018 was performed to March 31, 2021.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

As at March 31,	**2021**	**2020**
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

The following table presents key assumptions applicable to the SRP:

NOTE 8 PENSION LIABILITIES (continued)

As at March 31,	2021	2020
Annual discount rate	2.2%	2.5%
Annual salary increase - base	2.0%	2.0%
Expected long-term return on plan assets	4.3%	4.9%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% decrease in the discount rate assumption would result in an increase in the reported liability by $2,729 as at March 31, 2021 (2020: $2,489). A 1% increase in the salary scale assumption would result in an increase in the reported liability by $2,165 as at March 31, 2021 (2020: $1,868). A 1% increase in the inflation rate assumption would result in an increase in the reported liability by $1,044 as at March 31, 2021 (2020: $987).

Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan (MEPP) and the Public Service Pension Plan (PSPP). 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 $5,620 (2020: $4,542) for the year ended March 31, 2021 which was recorded in salaries, wages and benefits.

The Corporation accounts for multi-employer pension plans on a defined contribution basis. The Corporation is not responsible for future funding of the plan deficit other than through contribution increases.

The Corporation does not have sufficient plan information on the MEPP/PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recognized for the MEPP/PSPP is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits.

At December 31, 2020, MEPP reported a surplus of $809,850 (2019: surplus of $1,008,135) and PSPP a surplus of $2,223,582 (2019: surplus of $2,759,320).

NOTE 9 TANGIBLE CAPITAL ASSETS

For the year ended March 31, *(Thousands of Canadian dollars)*

	Computer systems hardware and software	Leasehold improvements	Furniture and equipment	2021	2020
Cost					
Opening balance	$ 135,288	$ 7,556	$ 5,494	148,338	$ 143,759
Additions	10,954	-	9	10,963	18,259
Disposals	(2,109)	-	-	(2,109)	(13,551)
Write downs	(93)	-	-	(93)	(129)
Closing balance	144,040	7,556	5,503	157,099	148,338
Accumulated amortization					
Opening balance	76,383	319	4,658	81,360	78,372
Amortization expense	16,386	552	213	17,151	16,539
Effect of disposals	(2,109)	-	-	(2,109)	(13,551)
Closing balance	90,660	871	4,871	96,402	81,360
Net book value at March 31	$ 53,380	$ 6,685	$ 632	$ 60,697	$ 66,978

NOTE 9 TANGIBLE CAPITAL ASSETS (continued)

Cost includes work-in-progress at March 31, 2021 totaling $4,255 (2020: $4,465) comprised of computer systems hardware and software.

NOTE 10 NET ASSETS

Net assets is made up as follows:

As at March 31, *(Thousands of Canadian dollars)*	**2021**	**2020**
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2020: $3,647) represents equity received by the Ministry of Treasury Board and Finance in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

b) Share Capital

The share capital of the Corporation consists of one share owned by the Crown in the right of Alberta recorded at $nil (2020: $nil).

NOTE 11 THIRD-PARTY INVESTMENT COSTS

Fees charged by third-party managers include regular management fees as well as performance/incentive-based fees. Third-party investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private investment pools. Third-party management fees may also vary by investment asset class. As of March 31, 2021, approximately 80% of assets under management are managed internally by the Corporation, and the remaining 20% through third-party investment managers. Third-party performance fees vary from year to year, and when compared to budgeted amounts, as these fees are directly correlated with investment performance. Higher investment returns generally result in higher third-party performance fees. These fees include significant estimates and are subject to measurement uncertainty. Actual results could differ from these estimates. These costs are incurred directly by the Corporation's investment portfolios.

Third-party other fees are incurred directly by the Corporation's investment portfolios and include fees for asset custody and investment acquisition. Not included in the third-party investment costs are asset administration, audit, compliance, valuation, and investment disposition and structuring costs incurred directly by the investment portfolios totaling $56,129 for the year ended March 31, 2021 (2020: $57,709).

NOTE 12 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

Measurement uncertainty exists in the valuation of private investments, hedge funds, real estate and renewable resource investments. Uncertainty arises because the estimated fair values of private investments, hedge funds, real estate and renewable resource investments may differ significantly from the values that would have been used had a ready market existed for these investments.

At March 31, 2021, assets under administration totaled $129.9 billion (2020: $110.0 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

NOTE 12 ASSETS UNDER ADMINISTRATION (continued)

As at March 31, *(Thousands of Canadian dollars)*	**2021**	**2020**
Pension plans	$ 89,683,454	$ 72,695,533
Ministry of Treasury Board and Finance		
General revenue and entity investment funds [1]	7,587,597	9,648,931
Endowment funds (including the Alberta Heritage Savings Trust Fund)	23,362,505	21,286,361
Insurance-related funds	6,747,120	3,079,146
Other government Ministry investment funds	2,481,034	3,253,631
	$ 129,861,710	$ 109,963,602

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Treasury Board and Finance.

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise, and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

Investments administered by the Corporation were held in the following asset classes:

As at March 31, *(Thousands of Canadian dollars)*	**2021**	**2020**
Fixed income		
Fixed income [1]	$ 35,552,542	$ 33,134,910
Private mortgages	4,152,526	4,286,656
Private debt and loan	2,726,084	1,600,608
Inflation sensitive		
Real estate	17,661,351	14,904,422
Infrastructure and renewable resources	13,069,821	11,757,483
Real return bonds and commodities	1,623,897	744,619
Equities		
Public equities and absolute return strategies	46,793,321	36,507,680
Private equity and venture capital	8,047,985	4,938,013
Overlays	234,183	355,572
Other derivatives	-	1,733,639
	$ 129,861,710	$ 109,963,602

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Treasury Board and Finance.

NOTE 13 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans, and entities under common control of the Province of Alberta for which the Corporation provides investment management services. Related parties also include key management personnel, close family members of those individuals, and entities that those individuals or their close family members may have significant control over (Key Management Personnel and their Close Family Members).

During the year ended March 31, 2021 and the prior year, there were no transactions between the Corporation and Key Management Personnel and their Close Family Members, that did not take place at fair market value.

AIMCo's direct and indirect cost recoveries revenue for the investment management services the Corporation provides do not include a profit margin. As a result, these revenues are not at fair market value.

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:

NOTE 13 RELATED PARTY TRANSACTIONS (continued)

For the year ended March 31, *(Thousands of Canadian dollars)*	**2021**	**2020**
Revenues		
Direct cost recoveries [1][2]	$ 181,166	$ 165,729
Indirect cost recoveries [1][2]	63,599	61,878
Interest income	147	1,193
	244,912	228,800
Expenses		
Interest on advance from the Province of Alberta [2]	43	363
Contracted services [2][3]	473	416
	516	779
Assets		
Accounts receivable [1][2]	6,244	3,004
Liabilities		
Accounts payable [2]	437	330
Advance from the Province of Alberta	58,349	58,349
	$ 58,786	$ 58,679

(1) Recovered from government funds, pension plans and other entities under common control.

(2) The prior period amounts were restated to exclude cost recoveries from Local Authorities Pension Plan, Public Service Pension Plan and Special Forces Pension Plan which are not under government common control. This change reduced the related party cost recoveries disclosed in the prior period financial statements by $332,089.

(3) Transacted with the Ministry of Treasury Board and Finance and other entities.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy to attract, retain, and motivate top performers. Base salaries are market driven and variable compensation programs reward long-term value-add performance.

The following table presents total compensation of the directors and officers of the Corporation earned for the year ended March 31, 2021 in accordance with direction from the Ministry of Treasury Board and Finance.

For the year ended March 31, *(Thousands of Canadian dollars)*

						2021	2020
	Base Salary[1]	Incentive Plan Annual[2]	Incentive Plan Long-Term[3]	Other Cash Benefits[4]	Other Non-Cash Benefits[5]	Total	Total
Chairman of the Board[6][7]	$ -	$ -	$ -	$ 116	$ -	$ 116	$ 114
Board Members[6]	-	-	-	541	-	541	537
Chief Executive Officer	500	1,526	634	-	77	2,737	2,976
Chief Investment Officer	425	811	881	-	71	2,188	2,949
Chief Investment Strategy Officer [8]	175	140	-	400	28	743	-
EVP, Public Equities [9]	68	-	-	330	14	412	1,048
EVP, Fixed Income	300	576	1,464	-	56	2,396	2,005
Chief Corporate Officer	285	453	181	13	46	978	1,361
Chief Financial Officer [10]	29	-	-	37	11	77	866
Chief Financial Officer [11]	120	-	-	-	20	140	-
Chief Legal Officer	260	281	132	26	49	748	932
Chief Risk Officer [12]	206	253	209	11	33	712	966
Chief Risk Officer [13]	121	20	-	-	21	162	-
Chief Client and Stakeholder Relations Officer	240	174	122	-	40	576	482

(1) Base salary consists of all regular pensionable base pay earned.
(2) Annual incentive plan is accrued based on goal attainment for the calendar year and paid in the subsequent period.
(3) Long-term incentive plan consists of amounts that became eligible for payment in the year and paid in a subsequent period.
(4) Other cash benefits consist of RFU amounts that became eligible for payment in the year and paid in a subsequent period, severance paid, lump sum payments, and any other direct cash remuneration.
(5) Other non-cash benefits consist of the Corporation's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, statutory contributions, and health plan coverage.
(6) The Board consisted of 10 independent members during fiscal 2020-21, including the Chairman whose compensation is disclosed separately.
(7) Two individuals occupied this position at different times during fiscal 2020-21. The incumbent was appointed Chairman on July 1, 2020. Amounts shown are for both the current and previous incumbent while they occupied the position in fiscal 2020-21.
(8) The incumbent commenced employment with the Corporation on October 1, 2020.
(9) The incumbent terminated employment with the Corporation on June 22, 2020. Included in other cash benefits are termination benefits of $310.
(10) The incumbent terminated employment with the Corporation on April 30, 2020.
(11) The incumbent commenced employment with the Corporation on November 18, 2020.
(12) The incumbent terminated employment with the Corporation on December 31, 2020.
(13) The incumbent commenced employment with the Corporation on November 5, 2020.

The Board of Directors of the Corporation announced the appointment of a new Chief Executive Officer (CEO) effective July 1, 2021. The incumbent CEO is the Corporation's CEO until June 30, 2021. As per his employment contract, the incumbent CEO is entitled to a termination benefit of $2,173 to be paid in fiscal 2022, which is included in accrued employment liabilities as at March 31, 2021. LTIP and RFU grants that are unvested when the incumbent CEO ceases to be employed by the Corporation will continue to accrue and are payable after the normal vesting period of the grant. The incumbent CEO is also entitled to an LTIP grant in fiscal 2022. The unvested LTIP grants as at March 31, 2021 are presented in the table below and the unvested RFU for $150 will vest on December 31, 2022.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE (continued)

LTIP grants are awarded at the start of each fiscal year. The resulting value, if any, is paid out after the end of a four-year vesting period and is based on long-term value-added performance. The tables below show the original (Notional) LTIP grants and estimated potential future payouts for each named executive. The future value of awards granted for 2018, 2019 and 2020 but not vested are estimated as at March 31, 2021 based on actual performance for calendar years 2018, 2019 and 2020 and pro forma multipliers of 1.0 (target) for future years. For awards granted in 2021, the future payout is estimated as at March 31, 2021 based on pro forma multipliers of 1.0 (target) for calendar year 2021 and all future years. No amount is payable if performance is below a certain level or if the vesting and payment conditions pursuant to the plan are not met.

	Original (Notional) Grant Value				
(Thousands of Canadian dollars)	As at March 31, 2020	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2021
Chief Executive Officer	$ 2,750	$ 875	$ (500)	$ -	$ 3,125
Chief Investment Officer	2,707	446	(695)	-	2,458
Chief Investment Strategy Officer	-	368	-	-	368
EVP, Public Equities (1)	1,618	-	-	(1,618)	-
EVP, Fixed Income	2,068	300	(499)	-	1,869
Chief Corporate & HR Officer	763	143	(143)	-	763
Chief Financial Officer (2)	368	-	-	(368)	-
Chief Financial Officer (3)	-	163	-	-	163
Chief Legal Officer	506	117	(104)	-	519
Chief Risk Officer (4)	674	-	(165)	(509)	-
Chief Risk Officer (5)	-	140	-	-	140
Chief Client and Stakeholder Relations Officer	384	96	(96)	-	384

	Estimated Future Payout					
(Thousands of Canadian dollars)	As at March 31, 2020 (6)	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	Change in Estimated Future Payout in Year	As at March 31, 2021
Chief Executive Officer	$ 2,786	$ 875	$ (634)	$ -	$ (1,819)	$ 1,208
Chief Investment Officer	3,036	446	(881)	-	(1,949)	652
Chief Investment Strategy Officer	-	368	-	-	-	368
EVP, Public Equities (1)	1,208	-	-	(289)	(919)	-
EVP, Fixed Income	3,362	300	(1,464)	-	(55)	2,143
Chief Corporate & HR Officer	752	143	(181)	-	(493)	221
Chief Financial Officer (2)	300	-	-	(64)	(236)	-
Chief Financial Officer (3)	-	163	-	-	-	163
Chief Legal Officer	531	117	(132)	-	(342)	174
Chief Risk Officer (4)	767	-	(209)	(85)	(473)	-
Chief Risk Officer (5)	-	140	-	-	-	140
Chief Client and Stakeholder Relations Officer	439	96	(122)	-	(272)	141

(1) The incumbent terminated employment with the Corporation on June 22, 2020.
(2) The incumbent terminated employment with the Corporation on April 30, 2020.
(3) The incumbent commenced employment with the Corporation on November 18, 2020.
(4) The incumbent terminated employment with the Corporation on December 31, 2020.
(5) The incumbent commenced employment with the Corporation on November 5, 2020.
(6) The Estimated Future Payout table has been updated to conform with the current year presentation of the Original Grant Value table.

NOTE 15 CONTRACTUAL OBLIGATIONS

Contractual obligations of $181,672 (2020: $187,832) are obligations to others that will become liabilities in the future when the terms of those contracts or agreements are met. The Corporation has entered into various agreements with minimum annual commitments for office space and other contracted services. The obligations exclude third-party investment costs incurred directly by the Corporation's investment portfolios. Estimated payment requirements for each of the next five years and thereafter are as follows:

As at March 31, *(Thousands of Canadian dollars)*	**2021**
2022	$ 47,478
2023	20,916
2024	14,437
2025	13,182
2026	13,717
Thereafter	71,942
Total	$ 181,672

The Corporation entered into a lease agreement commencing April 30, 2013, for nine years, with an option to renew for a further six years. Included in this agreement is a lease inducement of $300 to be recognized as a reduction in lease expense over the nine-year term of the lease.

The Corporation also entered into a lease agreement commencing February 26, 2018 for 10 years.

The Corporation entered into a lease agreement commencing January 1, 2020, for 15 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,875 which will be recognized as a reduction in lease expense over the 15-year term of the lease.

The total deferred lease inducement as at March 31, 2021 is $1,752 (2020: $1,911).

Pursuant to Order in Council 23/2008, the Corporation has made available a facility to access up to a maximum of $300,000 for letters of credit. This facility is utilized by the investment pools and at March 31, 2021 the balance outstanding against the facility is $87,612 (2020: $59,025).

NOTE 16 2021 BUDGET

The Corporation's budget for the year ended March 31, 2021 was approved by the Board of Directors in the amount of $529,675 on December 4, 2019.

NOTE 17 FINANCIAL RISK MANAGEMENT

The Corporation has minimal exposure to credit risk, liquidity risk and foreign exchange risk due to the nature of our operations.

a) Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Corporation. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments is directly or indirectly impacted by credit risk to some degree. The Corporation is exposed to minimal credit risk as all our clients are established organizations that have a proven history of payment.

As at March 31, 2021, the total carrying amount in accounts receivable balance is current.

NOTE 17 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The Corporation has limited exposure to liquidity risk as it recovers all operating expenses and capital expenditures from our clients on a cost-recovery basis.

Liquidity risk exposure is managed through regular recovery of all operating costs on a monthly basis. Further, the Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, in the event additional funding is needed.

c) Foreign Exchange Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. The Corporation has limited exposure to foreign exchange risk as amounts are payable and paid in a timely manner.

The carrying amount of the Corporation's US and British Pound Sterling denominated foreign currency in accounts payable and accrued liabilities as at March 31, 2021 is $1,765 (2020: $2,112) and $576 (2020: $177), respectively.

d) Interest Rate Risk

The Corporation is exposed to interest rate risk from our advance from the Province of Alberta. The sensitivity of the Corporation's operating surplus due to a 1% change in the interest rate is $583 (2020: $583).

NOTE 18 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on June 3, 2021.

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Alberta Pensions Services Corporation

Financial Statements

December 31, 2020

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Independent Auditor's Report

Auditor General
OF ALBERTA

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Pensions Services Corporation, which comprise the statement of financial position as at December 31, 2020, and the statements of operations, change in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 2020, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of Alberta Pensions Services Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Alberta Pensions Services Corporation 2020 Annual Report*, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Alberta Pensions Services Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Alberta Pensions Services Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Alberta Pensions Services Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Alberta Pensions Services Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Alberta Pensions Services Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

April 21, 2021
Edmonton, Alberta

ALBERTA PENSIONS SERVICES CORPORATION

Statement of Operations

Year ended December 31, 2020

(in thousands)

	2020		2019
Expenses	**Budget**	**Actual**	Actual
Salaries and benefits	$ 34,252	$ 31,158	$ 35,031
Contract services	2,389	2,505	3,424
Software licensing and support	5,862	5,248	6,087
Office related expenses	4,472	3,845	5,308
Amortization (Note 8)	5,541	5,544	5,652
Total before other services	52,516	48,300	55,502
Plan specific and corporate services (Note 5)	5,044	3,758	2,750
Employer specific services (Note 6)	40	40	40
Total operating expenses	$ 57,600	$ 52,098	$ 58,292
Recovery of costs (Note 7)	$ 57,600	$ 52,098	$ 58,292
Annual surplus (deficit)	–	–	–
Net assets at beginning of year	–	–	–
Net assets at end of year	$ –	$ –	$ –

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

Approved by the Board:

Original signed by

Colin P. MacDonald, Q.C., ICD.D
Chair, Board of Directors

Original signed by

Roger Rosychuk
Chair, Audit Committee

ALBERTA PENSIONS SERVICES CORPORATION

Statement of Financial Position

As at December 31, 2020

(in thousands)

		2020		2019
Financial assets				
Cash	$	2,675	$	2,376
Accounts receivable		66		31
Due from pension plans and plan corporations (Note 7)		1,440		5,749
		4,181		8,156
Liabilities				
Accounts payable and other accrued liabilities	$	2,929	$	6,349
Accrued salaries and benefits		665		1,610
Accrued vacation pay		829		725
Deferred lease inducement (Note 12)		913		1,162
Capital lease obligation		–		40
		5,336		9,886
Net debt	$	(1,155)	$	(1,730)
Non-financial assets				
Tangible capital assets (Note 8)	$	35,019	$	38,270
Prepaid expenses		1,155		1,730
		36,174		40,000
Net assets before spent deferred capital contributions		35,019		38,270
Spent deferred capital contributions (Note 8)		35,019		38,270
Net assets (Note 9)	$	–	$	–

Contractual obligations (Note 12)

Contingent liabilities (Note 13)

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

ALBERTA PENSIONS SERVICES CORPORATION

Statement of Change in Net Debt

Year ended December 31, 2020

(in thousands)

	2020		2019
	Budget	**Actual**	Actual
Annual surplus (deficit)	$ –	$ –	$ –
Acquisition of tangible capital assets (Note 8)	(2,510)	(2,293)	(3,599)
Amortization of tangible capital assets (Note 8)	5,541	5,544	5,652
Change in spent deferred capital contributions	(3,031)	(3,251)	(2,053)
Change in prepaid expenses	–	575	(507)
Decrease (increase) in net debt	–	575	(507)
Net debt at beginning of year	(1,730)	(1,730)	(1,223)
Net debt at end of year	$ (1,730)	$ (1,155)	$ (1,730)

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

ALBERTA PENSIONS SERVICES CORPORATION

Statement of Cash Flows

Year ended December 31, 2020

(in thousands)

	2020	2019
Operating transactions		
Annual surplus (deficit)	$ –	$ –
Non-cash items included in annual surplus (deficit):		
Amortization of tangible capital assets (Note 8)	5,544	5,652
(Decrease) increase in deferred lease inducement (Note 12)	(249)	1,051
Amortization of spent deferred capital contributions	(5,544)	(5,652)
	(249)	1,051
(Increase) decrease in accounts receivable	(35)	53
Decrease (increase) in prepaid expenses	575	(507)
Decrease (increase) in due from pension plans and plan corporations	4,309	(1,182)
(Decrease) increase in accounts payable and other accrued liabilities	(3,420)	3,293
Decrease in accrued salaries and benefits	(945)	(832)
Increase in accrued vacation pay	104	182
Cash provided by operating transactions	339	2,058
Capital transactions		
Acquisition of tangible capital assets (Note 8)	(2,293)	(3,599)
Cash applied to capital transactions	(2,293)	(3,599)
Financing transactions		
Increase in spent deferred capital contributions (Note 8)	2,293	3,599
Repayment of capital lease obligation	(40)	(39)
Cash provided by financing transactions	2,253	3,560
Increase in cash	299	2,019
Cash at beginning of year	2,376	357
Cash at end of year	$ 2,675	$ 2,376

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

ALBERTA PENSIONS SERVICES CORPORATION

Notes to the Financial Statements

Year ended December 31, 2020

1. Authority

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act* (Alberta). APS is a "Provincial corporation" under the *Financial Administration Act* (Alberta) and a "public agency" under the *Alberta Public Agencies Governance Act*. The issued share of the Corporation is owned by the Government of Alberta and accordingly, the Corporation is exempt from income taxes under the *Income Tax Act.* APS is referred to as "the Corporation" throughout the Notes to the Financial Statements.

2. Nature of Operations

The Corporation provides a comprehensive suite of pension administration services in respect of nine registered and unregistered pension plans. These services are provided pursuant to a "Pension Services Agreement" with each of LAPP Corporation, PSPP Corporation, and SFPP Corporation and a "Pension Administration Services Agreement" with the Government of Alberta.

The services provided to LAPP Corporation, PSPP Corporation and SFPP Corporation are respectively in relation to the Local Authorities Pension Plan (LAPP), the Public Service Pension Plan (PSPP) and the Special Forces Pension Plan (SFPP). These services are provided pursuant to the *Joint Governance of Public Sector Pension Plans Act* (Alberta) and in accordance with the *Employment Pension Plans Act* (Alberta).

The services provided to the Government of Alberta pertain to the following registered and unregistered pension plans:

- Management Employees Pension Plan (MEPP) and Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP), each established and governed by the *Public Sector Pension Plans Act* (Alberta);
- Supplementary Retirement Plan (SRP) for Public Service Managers (established by Treasury Board Directive);
- Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP) and Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP), each established and governed by Alberta Regulation 196/2001;
- Members of the Legislative Assembly (Registered) Pension Plan (MLAPP), established and governed by the *Members of the Legislative Assembly Pension Plan Act* (Alberta).

3. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS).

Recovery of Costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for the recovery of costs are recognized as the related expenses are incurred.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Valuation of Financial Assets and Liabilities

The Corporation's financial assets and liabilities are generally measured as follows:

FINANCIAL STATEMENT COMPONENT	MEASUREMENT
Cash and cash equivalents	Cost
Accounts receivable and due from pension plans and plan corporations	Lower of cost or net recoverable value
Accounts payable and other accrued liabilities, salaries and benefits	Cost

Financial Assets

Financial assets are the Corporation's financial claims on external organizations and individuals.

CASH AND CASH EQUIVALENTS

Cash is comprised of cash on hand and demand deposits. Cash equivalents 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. Cash equivalents are held for the purpose of meeting short-term commitments rather than for investment purposes.

ACCOUNTS RECEIVABLE

Accounts receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Liabilities

Liabilities are present obligations of the Corporation to external organizations and individuals arising from past transactions or events occurring before the year end, the settlement of which is expected to result in future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts.

Non-financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

3. Summary of Significant Accounting Policies (Continued)

TANGIBLE CAPITAL ASSETS

Tangible capital assets are recognized at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets and overhead directly attributable to construction and development.

Assets under construction are not amortized until after a project is complete (or substantially complete) and the asset is put into service.

Leases of tangible capital assets which transfer substantially all the benefits and risks of ownership are accounted for as leased tangible capital assets. Capital lease liabilities are recognized at the present value of the minimum lease payments excluding executory costs (e.g. insurance, maintenance costs, etc.). The discount rate used to determine the present value of the lease payments is the lower of the Corporation's rate for incremental borrowing or the interest rate implicit in the lease.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Pension Benefits Administration System (Compass)	12 years
Furniture and equipment	5 years
Computer hardware and software	3 years
Leasehold improvements	Term of lease

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.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

PREPAID EXPENSES

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

Financial Instruments

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans and plan corporations, accounts payable and other accrued liabilities, accrued salaries and benefits, and accrued vacation pay. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category, there are no remeasurement gains and losses and therefore, a statement of remeasurement gains and losses has not been presented.

3. 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 recognized in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

4. Future Accounting Changes

The Public Sector Accounting Board has issued the following accounting standards:

- **PS 3280 Asset Retirement Obligations (effective April 1, 2022)**
  This standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.
- **PS 3400 Revenue (effective April 1, 2023)**
  This standard provides guidance on how to account for and report on revenue, and specifically, it differentiates between revenue arising from exchange transactions and non-exchange transactions.

The Corporation has not yet adopted these standards. Management is currently assessing the impact of these standards on the financial statements.

5. Plan Specific & Corporate Services

(in thousands)

The Corporation provides tailored services to plan corporations and public sector pension plans and their respective boards and committees.

Entity	**2020**	2019
LAPP	**$ 951**	$ 335
PSPP	**813**	555
MEPP	**718**	668
SFPP	**628**	550
PSPP Corporation	**160**	139
SRP	**112**	126
SFPP Corporation	**106**	146
PJMC(R)PP	**88**	64
LAPP Corporation	**69**	52
PJMC(U)PP	**67**	41
PSM(CM)PP	**29**	59
MLAPP	**17**	15
	$ 3,758	$ 2,750

6. Employer Specific Services

(in thousands)

In 2008, the Minister approved the Corporation administering post retirement benefits for certain employers who participate in the public sector pension plans. The Corporation also 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. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

Employer	**2020**	2019
Alberta Health Services	**$ 1**	$ 1
City of Edmonton	**1**	1
EPCOR	**1**	1
Government of Alberta	**1**	1
Legislative Assembly	**1**	1
	5	5
Alberta Investment Management Corporation	**35**	35
	$ 40	$ 40

7. Recovery of Costs

(in thousands)

The Corporation charges each public sector pension plan and plan corporation with its proportionate share of the Corporation's operating costs based on the cost allocation methodology described in each of their formal agreements. At December 31, 2020, $1,440 (2019 – $5,749) is receivable from the plans and plan corporations. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

Entity	**2020**	2019
LAPP	**$ 34,719**	$ 38,983
PSPP	**11,539**	13,023
MEPP	**2,330**	2,511
SFPP	**1,634**	1,704
SRP	**712**	823
PSM(CM)PP	**231**	307
PJMC(R)PP	**227**	204
PJMC(U)PP	**191**	166
PSPP Corporation	**160**	139
SFPP Corporation	**106**	146
MLAPP	**97**	96
LAPP Corporation	**69**	52
	52,015	58,154
Interest and other miscellaneous cost recoveries	**43**	98
Employer specific services (Note 6)	**40**	40
	$ 52,098	$ 58,292

8. Tangible Capital Assets

(in thousands)

					2020	2019
	Compass system	Computer hardware & software	Leasehold improvements	Furniture & equipment	Total	Total
Estimated useful life	12 years	3 years	Lease term	5 years		
Historical cost[1]						
Beginning of year	$ 51,663	$ 9,335	$ 6,335	$ 1,527	$ 68,860	$ 65,806
Additions	1,656	637	-	-	2,293	3,599
Disposals, including write-downs	-	(267)	-	-	(267)	(545)
	53,319	9,705	6,335	1,527	70,886	68,860
Accumulated amortization						
Beginning of year	16,057	6,712	6,321	1,500	30,590	25,483
Amortization expense	4,178	1,344	12	10	5,544	5,652
Effect of disposals, including write-downs	-	(267)	-	-	(267)	(545)
	20,235	7,789	6,333	1,510	35,867	30,590
Net book value at December 31, 2020	$ 33,084	$ 1,916	$ 2	$ 17	$ 35,019	
Net book value at December 31, 2019	$ 35,606	$ 2,623	$ 14	$ 27		$ 38,270

Financing obtained from the public sector pension plans to acquire tangible capital assets is recognized as spent deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

[1] Historical cost includes asset under construction at December 31, 2020 totalling $39 (2019 – $2,903) comprised of computer hardware and software $39 (2019 – computer hardware and software $940 and Compass system $1,963).

9. Share Capital

	2020	2019
Issued:		
1 common share	$ 1	$ 1

An unlimited number of common and preferred shares are authorized with a single common share issued (Note 1).

10. Employee Future Benefits

(in thousands)

The Corporation participates in three multi-employer defined benefit public sector pension plans: PSPP, MEPP and SRP. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of $3,130 for the year ended December 31, 2020 (2019 – $3,533). This amount is included in salaries and benefits.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2019, PSPP reported a surplus of $2,759,320 (2018 – surplus of $519,218), MEPP reported a surplus of $1,008,135 (2018 – surplus of $670,700) and SRP had a deficiency of $44,698 (2018 – deficiency of $70,310).

11. Related Party Transactions

(in thousands)

Related parties are those entities consolidated using either line by line or modified equity basis in the Government of Alberta's Consolidated Financial Statements. Related parties also include key management personnel and close family members of those individuals in the Corporation. The Corporation and its employees paid or collected certain taxes and fees set by regulation for premiums, 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 Corporation had the following transactions with related parties reported in the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	2020	2019
EXPENSES		
Data processing, software licences, printing, postage and training	**$ 1,653**	$ 1,292
Plan financial reporting	**76**	117
Risk management and insurance	**203**	187
Management training	**2**	1
	$ 1,934	$ 1,597
Payable to Service Alberta	**$ 663**	$ 442

The Corporation also provided services to the plan corporations and public sector pension plans and their respective boards and committees as disclosed in Notes 5 and 7. These transactions are in the normal course of operations.

12. Contractual Obligations

(in thousands)

The Corporation has entered into some multi-year agreements whereby the Corporation will be obligated to make future payments when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

YEAR	Operating
2021	$ 4,140
2022	3,824
2023	1,805
2024	1,203
Thereafter	-
	$ 10,972

The Corporation entered into a 5-year lease agreement for a new facility commencing on September 1, 2019. As part of the lease agreement, the Corporation received a lease inducement of $1,245. The inducement is recognized as a reduction in lease expense over the 5-year term of the lease.

Operating obligations include non-cancellable purchase and contract commitments from service and software license agreements.

13. Contingent Liabilities

(in thousands)

APS is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate. As at December 31, 2020, accruals totaling $150 (2019 – $75) have been recognized as a liability.

APS has been named in 13 (2019: 13) claims, the outcomes of which 7 claims are likely and 6 cases are not determinable. In most cases these claims have been filed jointly and severally against APS, one of the pension plans and in some cases involve third parties. Of the likely claims, 4 (2019: 4) have a specified amount totaling $1,983 (2019: $1,965). Of the indeterminate claims, 1 (2019: 1) has a specified amount totaling $800 (2019: $800). The remaining claims have no specified amounts. Management estimates that any potential liability relating to these claims would be to the pension plan(s) named for any benefit related costs and any potential damages would be covered by the insurance provided by the Alberta Risk Management Fund.

The resolution of claims may result in a liability, if any, that may be significantly lower than the claimed amount.

14. Salaries and Benefits Disclosure

Details of Executive and Board member remuneration are presented in the Compensation Discussion and Analysis section of the Corporation's 2020 Annual Report.

15. 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 7).

It is management's opinion that the Corporation is not exposed to any risk arising from this financial instrument.

16. 2020 Budget

The Corporation's 2020 budget was approved by the Board of Directors on February 4, 2020.

17. Approval of Financial Statements

The Board approved the financial statements of the Corporation.

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Alberta Securities Commission

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Members of the Alberta Securities Commission

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2021, and the statements of change in net financial assets, operations, remeasurement gains and losses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2021, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Alberta Securities Commission in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Alberta Securities Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Alberta Securities Commission's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Alberta Securities Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Alberta Securities Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Alberta Securities Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 9, 2021
Edmonton, Alberta

Statement of Financial Position

thousands of dollars	At March 31, 2021	At March 31, 2020
Financial Assets		
Cash (Note 3)	27,657	26,833
Accounts receivable	101	27
Investments (Note 4)	85,863	60,138
	113,621	86,998
Liabilities		
Accounts payable and accrued liabilities	3,876	3,524
Lease inducements	1,158	1,324
Accrued pension liability (Note 6)	10,287	10,285
	15,321	15,133
Net Financial Assets	98,300	71,865
Non-Financial Assets		
Capital assets (Note 5)	3,960	4,791
Prepaid expenses	371	269
	4,331	5,060
Accumulated Surplus	102,631	76,925
Accumulated surplus is comprised of:		
Accumulated operating surplus	102,153	79,288
Accumulated remeasurement gains (losses)	478	(2,363)
	102,631	76,925

Commitments and contingent liabilities (Note 9)

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

Approved by the Members

Original signed by

STAN MAGIDSON
Chair and Chief Executive Officer

Original signed by

KAREN KIM
Chair of the Audit Committee

June 9, 2021

Statement of Change in Net Financial Assets

thousands of dollars

For year ended March 31

	2021 Budget (Note 10)	2021 Actual	2020 Actual
Operating Surplus	13,052	22,865	13,606
Acquisition of capital assets	(1,093)	(562)	(1,111)
Amortization of capital assets	1,442	1,393	1,330
Prepayment of expenses		(866)	(643)
Reduction of prepaid expenses		764	650
Net remeasurement gains (losses)		2,841	(3,529)
Increase in net financial assets	13,401	26,435	10,303
Net financial assets, beginning of year	71,865	71,865	61,562
Net financial assets, end of year	85,266	98,300	71,865

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

Statement of Operations

thousands of dollars For year ended March 31

	2021 Budget (Note 10)	2021 Actual	2020 Actual
Revenues			
Fees (Note 7)	53,174	55,424	53,188
Investment income (Note 4(C))	3,800	8,238	1,889
Other enforcement receipts (Note 7)	660	1,374	544
Administrative penalties (Note 3)	210	111	134
Conference and other	38	1	38
	57,882	65,148	55,793
Regulatory Expenses			
Salaries and benefits	32,102	31,062	30,674
Premises	4,546	4,444	4,486
Administration	3,536	2,564	3,115
Professional services	2,191	1,610	1,649
Amortization of capital assets (Note 5)	1,442	1,393	1,330
Investor education	813	947	754
Investment expense	200	263	179
	44,830	42,283	42,187
Operating Surplus	13,052	22,865	13,606
Accumulated Operating Surplus, beginning of year	79,288	79,288	65,682
Accumulated Operating Surplus, end of year	92,340	102,153	79,288

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

Statement of Measurement Gains and Losses (Note 4)

thousands of dollars For year ended March 31

	2021	2020
Accumulated remeasurement (losses) gains, beginning of year	(2,363)	1,166
Unrealized gains (losses) on investments during the year	3,038	(3,529)
Amounts reclassified during the year to the Statement of Operations	(197)	-
Net remeasurement gains (losses) for the year	2,841	(3,529)
Accumulated remeasurement gains (losses), end of year	478	(2,363)

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

Statement of Cash Flows

thousands of dollars	For year ended March 31	
	2021	2020
Operating Transactions		
Fees and other	**55,556**	53,592
Payments to and on behalf of employees	**(30,849)**	(30,473)
Payments to suppliers for goods and services	**(9,645)**	(10,442)
Investment income	**90**	245
Other enforcement receipts (Note 7)	**1,374**	544
Administrative penalties (Note 3)	**111**	134
Cash received from operating transactions	**16,637**	13,600
Capital Transactions		
Cash used to acquire capital assets	**(813)**	(866)
Cash used in capital transactions	**(813)**	(866)
Investing Transactions		
Purchases of investments	**(15,000)**	–
Cash used in investing transactions	**(15,000)**	–
Increase in cash	**824**	12,734
Cash, beginning of year	**26,833**	14,099
Cash, end of year	**27,657**	26,833

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

Notes to the Financial Statements

March 31, 2021

Note 1: Nature of Operations

The Alberta Securities Commission (ASC) is the regulatory agency responsible for administering the province's securities laws and is exempt from income tax under the *Income Tax Act* (Canada).

Note 2: Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

A) INVESTMENTS

The Alberta Investment Management Corporation (AIMCo) invests in pooled investment funds in accordance with the asset mix approved by the ASC. AIMCo controls the creation of the pools and the management and administration of the pools, including security selection. Accordingly, the ASC does not participate in capital market investment decisions or transactions.

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (I), (II), and (III) below. Fixed-income securities and equities consist of units in pooled investment funds. The units are recognized at fair value based on the fair value of the financial instruments held in the pools.

I. VALUATION OF INVESTMENTS

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

- public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, any price point between the bid/ask spread that is deemed to be most representative of fair value; and
- private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

The pools include derivative contracts including 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.

II. INVESTMENT INCOME AND EXPENSES

Income from investment in units of the pools and expenses and transaction costs incurred by the pools are allocated to the ASC based on the ASC's pro rata share of units in each pool. Investment services provided by AIMCo are charged directly to the pools on a cost-recovery basis. Fees for investment services provided to AIMCo by external managers are charged to the pools based on the percentage of net assets under management. Investment income, including that from derivative contracts and expenses, is recognized on an accrual basis.

Gains and losses arising as a result of the disposal of investments and related pool units are included in the determination of investment income and reported on the Statement of Operations. The cost of disposal is determined on an average-cost basis.

Interest income attributable to fixed-income financial assets held in the pools is recognized using the effective interest method. Dividend income attributable to equities held by the pools is recognized on the ex-dividend date.

III. REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains (losses) represent the excess (deficit) of the fair value of the pool units at year-end over (below) the cost of the pool units. Changes in accumulated remeasurement gains (losses) are recognized in the Statement of Remeasurement Gains and Losses. Changes in accumulated remeasurement gains (losses) during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in the Statement of Operations.

B) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Cash, lease inducements, accounts payable and accrued liabilities are recognized at cost. Accounts receivable are recognized at the lower of cost and net recoverable value. The fair values of each of these line items approximates their carrying values due to their short-term nature. All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the Statement of Operations. See Notes 2(A) and (G) for the valuation of investments and the accrued pension liability, respectively.

C) CAPITAL ASSETS

Capital assets are recognized at cost less accumulated amortization, which includes amounts directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Work in progress, which includes leasehold improvements, furniture and equipment, and computer equipment and software, is not amortized until after a project is complete (or substantially complete) and the asset is put into service.

Capital assets are written down when conditions indicate that they no longer contribute to the ASC's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations. Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leaseholds	one 6.5-year, one 8.3-year and one 15-year lease, all three ending November 2025

D) PREPAID EXPENSES

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

E) FEES, ADMINISTRATIVE PENALTIES AND OTHER ENFORCEMENT RECEIPTS RECOGNITION

Fees are recognized when earned, which is upon cash receipt.

Administrative penalties and other enforcement receipts, including disgorgements, settlement payments and cost recoveries, are recognized when the decision is issued by the ASC or an agreement is reached and collectability is assured, which is generally upon cash receipt.

F) EXPENSES

Expenses are reported on an accrual basis. The costs of all goods consumed and services received during the year are expensed.

G) EMPLOYEE FUTURE BENEFITS

The ASC participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan as the ASC has insufficient information to apply defined benefit plan accounting. Pension expenses are comprised of employer contributions related to the current service of employees during the year and additional employer contributions for service relating to prior years. These contributions are calculated based on actuarially pre-determined amounts that are expected, along with investment income, to provide the plan's future benefits.

The ASC maintains a supplemental retirement plan for certain designated executives of the ASC. This plan is limited to existing participants; no new participants have been added since 2014. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on service as well as management's best estimate of economic assumptions. Past service costs and actuarial gains and losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of the related employee group in the Supplemental Pension Plan. The average remaining service period of active employees in the Supplemental Pension Plan is three 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 these employees.

H) LEASE INDUCEMENTS

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease terms.

I) MEASUREMENT UNCERTAINTY

Financial statements prepared in conformity with PSAS require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include the value of investments, the value of accrued employee benefit liabilities and the useful lives of capital assets. Actual results could differ from these estimates.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of an 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. It is not possible to estimate the amount, if any, of subsequent recoveries.

J) RESTRICTED CASH

The *Securities Act* (Alberta) requires the revenue from administrative penalties to be used for certain operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

K) FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has approved the following accounting standards:

PS3280 Asset Retirement Obligations (effective April 1, 2022)

The effective date has been deferred one year to April 1, 2022, with early adoption permitted. This standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

This new standard is not expected to have any material impact on the financial statements when adopted.

PS3400 Revenue (effective April 1, 2023)

The effective date has been deferred one year to April 1, 2023, with early adoption permitted. This standard provides guidance on how to account for and report revenue. More specifically, it differentiates between revenue arising from transactions with performance obligations (exchange transactions) and transactions without performance obligations (non-exchange transactions).

ASC has not yet adopted this standard. Management is currently assessing the impact of this standard on the ASC's financial statements.

Note 3: Cash and Restricted Cash

thousands of dollars	2021	2020
Cash	27,657	26,833

Net financial assets include accumulated net administrative penalty revenue represented as restricted cash. The change in restricted cash is comprised of:

thousands of dollars	2021	2020
Administrative Penalties		
Assessed penalties	1,270	1,675
Less provision for uncollectible amounts	(1,269)	(1,675)
Plus recoveries of prior-year assessments	110	134
	111	134
Administrative Penalties	111	134
Plus conference fees	-	38
Less eligible restricted cash expenses (investor education)	(111)	(172)
Change in restricted cash	–	–
Restricted Cash, beginning of year	–	–
Restricted Cash, end of year	–	–

Cash includes 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 appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality fixed-income securities, with a maximum term-to-maturity of three years. For the year ended March 31, 2021, the ASC received an annualized return of 0.5 per cent (2020 – 1.8 per cent).

Note 4: Investments

A) SUMMARY

thousands of dollars	2021				2020		
Investments	**Cost**	**Remeasurement Gains (Losses)**	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Fixed-income securities	59,187	(537)	58,650	68.3	42,261	43,679	72.6
Global equities	19,530	939	20,469	23.8	15,664	12,892	21.4
Canadian equities	6,264	76	6,340	7.4	4,263	3,254	5.4
CCITF deposit	404	–	404	0.5	313	313	0.6
	85,385	478	85,863	100.0	62,501	60,138	100.0

The carrying amounts of the ASC's investments are recognized on a fair-value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

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 equities from Canadian and global market index participants. The equity pools use derivatives as part of AIMCo's global strategy.

Derivatives are primarily used as hedging instruments within global equities. Foreign exchange forwards and swaps are used to manage the foreign exchange and interest rate risk of specific securities. As well, swaps on credit indices are used to hedge credit risk in the portfolio.

AIMCo utilizes derivatives to quickly and cost-effectively implement asset and currency allocation strategies and to add value to market returns. As appropriate, AIMCo has utilized derivatives across all asset classes to hedge. These positions are typically highly liquid, transparent and relatively easy to price and implement and allow AIMco to economically take exposures.

Derivatives are valued on a daily basis primarily using either a "mark to model" approach using valuation models created internally or sourced from specialized third-party valuators/vendors that are independent from the counterparty. The valuation models use observable market data inputs such as yield curves, spreads, volatility, and currency rates obtained from approved data providers. Review and approval of prices generated by internal models is similar to listed securities except that the prices are generally sole-sourced. The fair value of derivatives as at March 31, 2021 resulted in a net asset position of $443,553 compared to a net liability position of $2,618,264 as at March 31, 2020.

FAIR VALUE HIERARCHY

The measure of reliability is determined based on the following:

I. LEVEL ONE:

Fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level One for fair value hierarchy purposes. Pool units classified as Level Two may contain investments that may otherwise be classified as Level One.

II. LEVEL TWO:

Fair value is estimated using valuation techniques that make use of market observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts. All of the ASC's investments are in Level Two.

III. LEVEL THREE:

Fair value is estimated using inputs based on non-observable market data.

B) INVESTMENT RISK MANAGEMENT

The ASC is exposed to financial risks associated with the underlying securities held in the investment funds. These financial risks include credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk.

I. 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 ASC. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments is directly or indirectly impacted by credit risk to some degree. Most of the ASC's investments in debt securities are with counterparties considered to be investment grade.

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

Credit Rating	2021	2020
Investment Grade		
AAA	22.9%	24.1%
AA+ to AA-	27.8%	28.5%
A+ to A-	21.7%	22.1%
BBB+ to BBB-	23.4%	20.3%
Speculative Grade (BB+ or lower)	2.8%	0.6%
Unrated	1.4%	4.4%
	100.0%	100.0%

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. As at March 31, 2021, the fair value of the ASC's share of securities loaned was $1,174,492 (2020 – $867,577) and the fair value of collateral held totals $1,254,501 (2020 – $931,401). The net impact was $80,009 (excess credit protection). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash or other investments. All collateralization, by the borrower, must be in excess of 100 per cent of investments loaned.

At March 31, 2021, deposits in futures contracts margin accounts totalled $703,307 (2020 – $1,004,699). Cash and non-cash collateral for derivative contracts pledged as at March 31, 2021 totalled $1,337,454 (2020 – $2,307,006) and collateral received was $nil as at March 31, 2021 (2020 – $nil).

II. FOREIGN CURRENCY RISK

The ASC is exposed to foreign currency risk associated with the underlying securities held in 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.

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

thousands of dollars	March 31, 2021		March 31, 2020	
Currency	**Fair Value**	**Sensitivity***	**Fair Value**	**Sensitivity***
U.S. Dollar	12,905	(1,291)	6,963	(696)
Euro	2,370	(237)	1,323	(132)
Japanese Yen	1,561	(156)	1,147	(115)
British Pound Sterling	906	(91)	500	(50)
Swiss Franc	467	(47)	437	(44)
Australian Dollar	362	(36)	187	(19)
Other Foreign Currency	702	(70)	560	(56)
Total Foreign Currency Investments	19,273	(1,928)	11,117	(1,112)

**Sensitivity refers to the fair value impact when the value of the Canadian dollar increases by 10 per cent against all other currencies, with all other variables held constant.*

III. INTEREST RATE RISK

The ASC is exposed to interest rate risk with the CCITF and fixed-income securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer-term fixed-income securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1.0 per cent, and all other variables are held constant, the potential loss in fair value to the ASC would be approximately 4.9 per cent of total investments (2020 – 5.6 per cent).

The following table summarizes the terms to maturity of fixed-income securities held in pooled investment funds at March 31, 2021:

	<1 year	1–5 years	Over 5 years	Repurchase Agreements**
Fixed-income securities	30.4%	29.0%	71.4%	(30.8%)

***All repurchase agreements are less than 24 months.*

IV. PRICE RISK

The ASC is exposed to price risk associated with the underlying equity investments held in investment funds. 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. If equity market indices (S&P/TSX and MSCI ACWI and their sectors) declined by 10.0 per cent, and all other variables are held constant, the potential loss in fair value to ASC would be approximately 3.4 per cent of total investments (2020 – 3.1 per cent).

V. LIQUIDITY RISK

Liquidity risk is the risk that the ASC will encounter difficulty in meeting obligations associated with its financial liabilities. Income generated from investments and by investing in publicly traded liquid assets traded in active markets that are easily sold and converted to cash contribute to the ASC's liquidity.

C) INVESTMENT INCOME

The ASC's investment income includes $4.3 million from CCITF and fixed-income securities (2020 – $863,736) and $3.9 million from equities (2020 – $1.03 million). The ASC's investments had a net return of 16.08 per cent for the year ended March 31, 2021, which was generated by the realized and unrealized gains and losses (2020 – negative net return of 3.2 per cent). This performance compares to a benchmark (composite of FTSE TMX 91 Day T-Bill, FTSE TMX Canada Universe Bond, MSCI World index and S&P/TSX indexes) return of 11.87 per cent for the year ended March 31, 2021 (2020 – 1.7 per cent). As at March 31, 2021, the investment portfolio has recorded a loss in value, other than a temporary decline, in equity securities that resulted in an impairment of $110,581 (2020 – $56,947). The impairment was recognized in the statement of operations and netted against the investment income. There was no impairment in the fixed-income securities.

Note 5: Capital Assets

thousands of dollars	**Computer Equipment & Software**	**Furniture & Equipment**	**Leaseholds**	**2021 Total**	2020 Total
Estimated useful life	3 years	10 years	Lease duration		
Cost					
Beginning of year	**3,885**	**3,298**	**7,197**	**14,380**	13,753
Additions	**317**	**209**	**36**	**562**	1,111
Disposals	**(425)**	**(25)**	**–**	**(450)**	(484)
	3,777	**3,482**	**7,233**	**14,492**	14,380
Accumulated amortization					
Beginning of year	**2,748**	**2,490**	**4,351**	**9,589**	8,743
Amortization expense	**643**	**246**	**504**	**1,393**	1,330
Disposals	**(425)**	**(25)**	**–**	**(450)**	(484)
	2,966	**2,711**	**4,855**	**10,532**	9,589
Net book value	**811**	**771**	**2,378**	**3,960**	4,791

Cost includes computer equipment and software work in-progress as at March 31, 2021 totalling $44,852. The F2020 work in-progress included leasehold improvements of $135,059, computer equipment and software of $74,123, and furniture and equipment of $241,203.

Note 6: Accrued Pension Liability and Pension Expense

The following pension expense for the plans is included in the Statement of Operations under salaries and benefits:

thousands of dollars	**2021**	2020
Public Service Pension Plan	**1,465**	1,449
Registered Retirement Savings Plan	**1,234**	1,140
Supplemental Pension Plan	**338**	563
	3,037	3,152

A) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2020, the Public Service Pension Plan reported a surplus of $2,224 million (December 31, 2019 – $2,759 million). The ASC is not responsible for future funding of any plan deficit other than through contribution increases.

B) REGISTERED RETIREMENT SAVINGS PLAN

The ASC makes Registered Retirement Savings Plan (RRSP) contributions on behalf of employees who do not participate in the Public Service Pension Plan.

C) SUPPLEMENTAL PENSION PLAN

The ASC has a Supplemental Pension Plan (SPP) for certain designated executives of the ASC. The provisions of the SPP were established pursuant to a written agreement with each designated executive.

The SPP provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the SPP 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 as a designated executive. Members of the Supplemental Pension Plan become vested in the plan after two years of service.

The SPP is unfunded and the benefits will be paid as they come due from the assets of the ASC.

An actuarial valuation of the SPP is undertaken every three years. In March 2021, an independent actuary performed a SPP valuation. The next valuation is scheduled for March 2024. The results of the actuarial valuation and management's cost estimates as they apply to the SPP are summarized below:

thousands of dollars	**2021**	2020
Supplemental Pension Plan		
Accrued benefit and unfunded obligation	**10,451**	9,687
Unamortized actuarial (losses) gains	**(164)**	598
Accrued benefit liability	**10,287**	10,285

thousands of dollars	**2021**	2020
Accrued Benefit Obligation		
Accrued benefit obligation at beginning of year	**9,687**	9,480
Service cost	**219**	229
Interest cost	**319**	311
Benefits paid	**(336)**	(333)
Actuarial losses – experience and assumptions	**562**	–
Accrued benefit obligation at end of year	**10,451**	9,687

thousands of dollars	**2021**	2020
Pension Expense for the Supplemental Pension Plan		
Service cost	**219**	229
Interest cost	**319**	311
Amortization of actuarial (gains) losses during the year	**(200)**	23
	338	563

The assumptions used in the actuarial valuation of the SPP and the projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

Assumptions	**2021**	2020
Discount rate, year-end obligation	**2.50%**	3.25%
Discount rate, annual pension expense	**3.25%**	3.25%
Rate of inflation, year-end obligation	**2.00%**	2.00%
Salary increases, year-end obligation	**0.00%**	2.50%
Remaining service life, year-end obligation	**3 years**	5 years

Note 7: Fees and Other Enforcement Receipts

thousands of dollars	**2021**	2020
Fees		
Annual financial statements	**19,648**	19,299
Distribution of securities	**18,094**	16,457
Registration	**17,018**	16,816
SEDI, exempt distributions and registration late filing fees	**498**	498
Orders (applications)	**166**	118
	55,424	53,188

thousands of dollars	**2021**	2020
Other Enforcement Receipts		
Settlement payments, disgorgements and cost recoveries assessed	**3,158**	6,167
Less directed to investors	**-**	(500)
Less provision for uncollectible amounts	**(1,790)**	(5,145)
Plus recoveries of prior-year assessments	**6**	22
	1,374	544

Note 8: CSA National Systems

The CSA National Systems include the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. Though not expected to occur, as one of the agreement signatories, the ASC commits to pay 25.0 per cent of any shortfall from approved system operating costs that exceeds revenue. Any revenue in excess of system operating costs (surplus) is accumulated for future systems operations, including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at March 31, 2021, the accumulated operating surplus totalled $192.7 million (March 31, 2020 – $183.6 million). This was primarily made up of $127.4 million of investments comprised of a notice account earning Bank of Canada overnight rate plus 0.5 per cent, guaranteed investment certificates ranging from one to three years earning from 1.1 to 2.7 per cent; $39.1 million in intangible assets; and $23.2 million in cash held by the Ontario Securities Commission (the Designated Principal Administrator) earning Prime rate less 1.85 per cent. In management's judgment, this arrangement is not an interest in a partnership and the ASC does not control or have significant influence over how the net assets are managed.

Note 9: Commitments and Contingent Liabilities

Details of commitments to organizations outside the ASC are set out below.

A) COMMITMENTS

Premises Leases and Equipment Rental

Commitments arising from contractual obligations relate to the lease of premises to November 30, 2025 and rental of office equipment to 2024 totalling $22.0 million (2020 – $28.5 million). These commitments become expenses of the ASC when the terms of the contracts are met.

thousands of dollars	
2021–22	4,678
2022–23	4,705
2023–24	4,729
2024–25	4,746
Thereafter	3,173
Total	22,031

Canadian Securities Administrators

The CSA Secretariat assists in the development and harmonization of rules, regulations and policies across Canada. The ASC shares, based on an agreed-upon cost-sharing formula, costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies.

B) CONTINGENT LIABILITIES

ASC panel or court decisions may be appealed. The outcomes of these matters are not determinable at this time; therefore, the impact to the operating surplus cannot be determined. However, management does not expect the impact to be material.

Note 10: Budget

The ASC's F2021 budget was approved by the Commission on December 11, 2019.

Note 11: Related Party Transactions

The ASC is related through common ownership to all Alberta provincial government ministries, agencies, boards, commissions and Crown corporations. Related parties also include key management personnel of the ASC and close family members of those individuals. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded these transactions at exchange amounts. Total transaction costs of $441,387 (2020 – $196,187) were recognized in salaries and benefits, administration and investor education expenses, primarily for employment contracts, investor education, insurance and transcript and postage services. Investment fees of $263,350 (2020 – $179,269) was paid to AIMCo. As of March 31, 2021, included in accounts payable and accrued liabilities is $230 (2020 – $350) related to these transactions.

Schedule 1 – Salary and Benefits Disclosure

thousands of dollars				2021	2020
	Base salary[1]	**Other Cash benefits[2]**	**Other Non-cash benefits[3]**	**Total**	Total
Chair and Chief Executive Officer (CEO), Alberta Securities Commission[4]	**495**	**132**	**27**	**654**	616
Executive Director, Alberta Securities Commission	**379**	**18**	**120**	**517**	563
Vice-Chair, Alberta Securities Commission[4,5]	**302**	**66**	**56**	**424**	434
Vice-Chair, Alberta Securities Commission[4]	**302**	**49**	**71**	**422**	427
Independent Members of the Alberta Securities Commission (aggregate)[6]	**516**	**–**	**–**	**516**	577

[1] *Base salary includes regular salary or Independent Members' compensation.*

[2] *Other cash benefits may include vacation payouts, retirement payments, transit allowance, study leave and automobile allowance.*

[3] *Other non-cash benefits may include the employer's share of all employee benefits and contributions or payments made on behalf of employees, including RRSP, SPP*, flex benefit, health care, dental coverage, group life insurance, long-term disability plan, fair market value of parking, professional memberships and tuition fees.*

[4] *The Chair and Vice-Chairs are full-time Commission Members.*

[5] *This Vice-Chair does not participate in the SPP, but participates in the RRSP program. This RRSP benefit is reported under Other Non-cash benefits.*

[6] *The Independent Members' compensation includes total fees paid for governance responsibilities of $298,000 (2020 – $291,000) and hearing and application panel participation of $218,200 (2020 – $286,000).*

Independent Member fees include:

	2021
Annual retainer	$ 10,000
Committee memberships (other than Audit Committee)	$ 2,500
Committee memberships (Audit Committee)	$ 4,000
Committee chairing (other than Audit Committee)	$ 5,000
Committee chairing (Audit Committee)	$ 8,000
Lead independent member	$ 5,000
Meeting attendance fee	$1,000 per day for an ASC meeting; $750 for a Committee meeting
Hearing fees	$1,500 per hearing day; and $200 per hour of related preparation, review and decision writing
Hearing fees (Panel Chair)	$2,000 per hearing day; and $250 per hour of related preparation, review and decision writing

** Under the terms of the SPP, executive officers may receive supplemental retirement payments. Retirement arrangement costs 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. SPP provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of expected costs and the period of 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.*

Supplemental Retirement Benefits

ANNUAL EXPENSE

thousands of dollars			2021	2020
	Current service costs	**Prior service and other costs**	**Total**	Total
Chair and CEO, Alberta Securities Commission[1]	**–**	**–**	**–**	–
Executive Director, Alberta Securities Commission	**76**	**–**	**76**	95
Vice-Chair, Alberta Securities Commission[2]	**–**	**–**	**–**	–
Vice-Chair, Alberta Securities Commission[3]	**49**	**(9)**	**40**	52

ACCRUED OBLIGATIONS

thousands of dollars	Accrued obligation March 31, 2020	Changes in accrued obligation	**Accrued obligation March 31, 2021**
Chair and CEO, Alberta Securities Commission[1]	–	–	**–**
Executive Director, Alberta Securities Commission	1,788	(109)	**1,679**
Vice-Chair, Alberta Securities Commission[2]	–	–	**–**
Vice-Chair, Alberta Securities Commission[3]	719	270	**989**

[1] *The Chair and CEO does not participate in the SPP, but participates in the RRSP program. This benefit is reported under Other Non-cash benefits.*

[2] *This Vice-Chair does not participate in the SPP, but participates in the RRSP program. This benefit is reported under Other Non-cash benefits.*

[3] *This Vice-Chair's term commenced on May 8, 2018. In both this role and prior role at the ASC, this Vice-Chair was a member of the SPP.*

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N.A. Properties (1994) Ltd.

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Shareholder of N.A. Properties (1994) Ltd.

Report on the Financial Statements

Opinion

I have audited the financial statements of N.A. Properties (1994) Ltd., which comprise the statement of financial position as at March 31, 2021, and the statements of operations and surplus, and change in net financial assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of N.A. Properties (1994) Ltd. as at March 31, 2021, and the results of its operations and its changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of N.A. Properties (1994) Ltd. in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of N.A. Properties (1994) Ltd. are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance*, but does not include the financial statements of N.A. Properties (1994) Ltd. and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing N.A. Properties (1994) Ltd.’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing N.A. Properties (1994) Ltd.’s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 N.A. Properties (1994) Ltd.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on N.A. Properties (1994) Ltd.’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit

evidence obtained up to the date of my auditor's report. However, future events or conditions may cause N.A. Properties (1994) Ltd. to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

	($ thousands) 2021	($ thousands) 2020
Financial Assets		
Cash and cash equivalents (Note 4)	$ -	$ 3,257
Note receivable (Note 5)	276	229
	276	3,486
Net Financial Assets		
Net assets (Note 6)	$ 276	$ 3,486

The accompanying notes are part of these financial statements.

On Behalf of the Board:

[Original signed by]

Lowell Epp
Sole Director

Statement of Change in Net Financial Assets

Year Ended March 31, 2021

	($ thousands) 2021	($ thousands) 2020
Net operating surplus	$ 47	$ 97
	47	97
Transfer to GRF (Note 6, 7)	(3,257)	-
Net Financial Assets, Beginning of year	3,486	3,389
Net Financial Assets, End of Year	$ 276	$ 3,486

The accompanying notes are part of these financial statements.

Statement of Operations and Surplus

Year Ended March 31, 2021

	($ thousands)	
	2021	**2020**
Revenues		
Interest and other	$ 47	$ 97
Net operating surplus	47	97
Net assets, beginning of year	3,486	3,389
Transfer to GRF (Note 6, 7)	(3,257)	-
Net assets, end of year	$ 276	$ 3,486

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2021
(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 taxes under the Income Tax Act.

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.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. Effective April 1, 2012, the Company adopted PS 3450 Financial Instruments. This section deals with how to account for and report financial instruments. The accounting policies of significance to the Company are as follows:

a) FINANCIAL STATEMENT PRESENTATION

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Company’s financial assets and liabilities.

A net financial assets balance indicates the extent of the Company’s government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

Financial Assets are the Company’s financial claims on external organizations as well as cash and cash equivalents.

A cash flow statement is not provided due to the limited nature of the Company’s operations. All information about the Company’s cash flows are contained within the financial statements.

b) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of cash is estimated to approximate its carrying value because of the short-term nature of this instrument.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES ... CONTINUED

c) FINANCIAL INSTRUMENTS

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

d) FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has approved the following accounting standard:

• PS 3280 Asset Retirement Obligations (effective April 1, 2022)

This standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

• PS 3400 Revenue (effective April 1, 2023)

This standard provides guidance on how to account for and report on revenue, and specifically, it differentiates between revenue arising from exchange transactions and non-exchange transactions.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2021 the deposits in the bank had a time weighted return of 0.42% per annum (2020: 1.9%) per annum.

NOTE 5 NOTE RECEIVABLE

The non-interest bearing note receivable in the amount of $933 was issued in November 1987 and matures in the year 2027. The carrying value of the note receivable as at March 31, 2021 is $276 (2020: $229). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium.

NOTE 6 NET ASSETS

Net assets consists of the following:

	($ thousands)	
	2021	**2020**
Share capital	$ 229	$ 5,769
Accumulated Surplus (Deficit)	47	(2,283)
Net assets	$ 276	$ 3,486

During the year, a shareholder's resolution was made to reduce the Company's share capital of its Class A shares by $2,283, the amount of the Company's accumulated deficit at March 31, 2020.

The shareholder resolution also authorized a cash distribution of share capital of $3,257 and reduced the share capital of Class A shares by $3,257.

Share capital consists of the following:

		($ thousands) 2021	2020
Issued			
1	Class "A" share	$ 228	$ 5,768
1,000	Class "B" shares	1	1
		$ 229	$ 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 7 RELATED PARTY TRANSACTIONS

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta Consolidated Financial Statements. Related parties also include key management personnel in the department and their close family members.

Payment to the General Revenue Fund of $3,257 was made in the year. Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no other related party transactions in the year ended March 31, 2021 nor for the prior year ended March 31, 2020.

NOTE 8 FEES AND SALARIES

There were no director’s fees or salaries paid during the year. The Company had no employees in 2021 nor in the prior year 2020.

NOTE 9 BUDGET

The Company’s annual budget appears in the 2020-21 Entity Financial Information. 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.

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Gainers Inc.

Consolidated Financial Statements

September 30, 2020

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Independent Auditor's Report

Auditor General
OF ALBERTA

To the Shareholder of Gainers Inc.

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of Gainers Inc. (the Group), which comprise the consolidated statement of financial position as at September 30, 2020, and the consolidated statements of operations, change in net debt, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2020, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the *Audit of the Consolidated Financial Statements* section of my report. I am independent of the Group in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – going concern

I draw attention to Note 1 in the financial statements; as stated in Note 1, Gainers Inc. operated on a going concern basis until September 25, 1993. Events since that date have resulted in the discontinuance of all ongoing business. My opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The financial statements of Gainers Inc. are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the Annual Report of the Ministry of Treasury Board and Finance, but does not include the consolidated financial statements and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting as applicable in accordance with Canadian public sector accounting standards.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. Because of the decision to cease operations of the Group, as disclosed in the financial statements, it ceased to be a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D

Auditor General

February 4, 2021

Edmonton, Alberta

Consolidated Statement of Financial Position

Year ended September 30, 2020

	($ thousands) 2020	2019
Financial Assets		
Cash	$ -	$ -
Investment in and amount due from former affiliate (Note 3)	-	-
	$ -	$ -
Liabilities		
Accounts payable and accrued liabilities	$ 25	$ 21
Principal and interest on prior years income taxes (Note 4)	11,334	11,334
Long-term debt (Note 5)	192,866	192,858
	204,225	204,213
Net Debt and Net Liabilities		
Accumulated Liability (Note 7)	(204,225)	(204,213)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Change in Net Debt

Year ended September 30, 2020

	2020 Budget	2020 Actual	2019 Actual
Net operating (Deficit) Surplus	$ (5)	$ (12)	$ 540
(Increase) Decrease in Net Debt		(12)	540
Net Debt, Beginning of year		(204,213)	(204,753)
Net Debt, End of Year		$ (204,225)	$ (204,213)

($ thousands)

The accompanying notes are part of these consolidated financial statements.

Approved by the Board of Directors
[Original signed by]

Dan Harrington, Director

Consolidated Statement of Operations

Year ended September 30, 2020

	2020 Budget ($ thousands)	2020 Actual ($ thousands)	2019 Actual ($ thousands)
Revenue			
Land purchase option settlement	$ -	$ -	$ 799
Miscellaneous Revenue	-	-	169
Expenses			
Legal expenses	$ 5	$ 8	$ 424
General and administrative	-	4	4
Annual (Deficit) Surplus	(5)	(12)	540
Accumulated deficit, beginning of year		(204,213)	(204,753)
Accumulated deficit, end of year		$ (204,225)	$ (204,213)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended September 30, 2020

	2020 ($ thousands)	2019 ($ thousands)
Cash provided by (used in)		
Operating activities		
Annual (Deficit) Surplus	$ (12)	$ 540
Increase in payables	4	4
	(8)	544
Financing activities		
Proceeds (Repayments) from long-term debt	8	(544)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

September 30, 2020
(in thousands of dollars, except per share amounts)

NOTE 1 AUTHORITY

Gainers Inc. is a commercial Crown-controlled corporation and operates under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

Through September 25, 1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. Management does not expect any recovery of that investment.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards.

a) REPORTING ENTITY AND METHOD OF CONSOLIDATION

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations, which are controlled by Gainers. These organizations are Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the "company".

b) FINANCIAL STATEMENT PRESENTATION

The net debt model has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Company's financial assets and liabilities.

A net financial assets balance indicates the extent of the Company's transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

The effect of this change results in changing the presentation of the Consolidated Statement of Financial Position and adding the Consolidated Statement of Change in Net Debt.

Financial Assets are the Company's Financial claims on external organizations as well as cash and cash equivalents.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

c) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Financial 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.

Financial Instruments

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

Valuation of Financial Assets and Liabilities

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

The fair values of cash, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of long term debt are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

NOTE 3 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATE

The investment, which has been written down to $nil value, comprises 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, US $100 per share and which carry annual non-cumulative dividends of US $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. Management does not expect any recovery from this claim.

Advances to the former affiliate, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.), which are recorded at $nil value, are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgment was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in Note 5 and was subsequently remitted to the Province of Alberta (“Alberta”). Gainers Inc. appealed this decision to the Alberta Court of Appeal and was successful on all issues. The Court of Appeal ordered that a new calculation of the amount to be repaid be made by the Court of Queen’s Bench. Gainers Inc. has not taken further steps as Pocklington Financial Corporation is bankrupt.

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. (350151) for $100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for one hundred dollars cash. Alberta filed a claim to have the sale reversed. The accounts of 350151 are not included in these financial statements. In December 1995, a judgment as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgment. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1989 was a breach of the Master Agreement (Note 5) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgment was subsequently paid from realizing on collateral security held for the debt.

NOTE 4 INCOME TAXES

The prior years’ liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. The company will not be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount which is reasonably expected to be recovered from the remaining assets of the company.

The company has capital 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.

NOTE 5 LONG-TERM DEBT

	($ thousands) 2020	2019
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	13,567	13,559
Accrued interest	34,491	34,491
	$192,866	$192,858

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, 2020 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 6 CONTINGENT LIABILITIES

a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Management does not expect any recovery of this claim.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,241 (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. The judgement was renewed a further 10 years by Order granted on November 21, 2019, in the amount of $14,227. The associated Writ of Enforcement was renewed on December 6, 2019 and expires on December 6, 2021. Mr. Pocklington filed for bankruptcy in California and the Province has registered its claim in California. Mr. Pocklington’s bankruptcy has now been dismissed and judgement creditors like the Province of Alberta are pursuing Mr. Pocklington for collection in proceedings in California.

NOTE 7 NET LIABILITIES

Net liabilities consists of the following:

	($ thousands) 2020	2019
Share capital	$ 1	$ 1
Accumulated deficit	(204,225)	(204,213)
Net liabilities	$ (204,224)	$ (204,212)

Share capital consists of the following:

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) 2020	2019
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	(6,000)
	$ 1	$ 1

NOTE 8 RELATED PARTY TRANSACTIONS

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta Consolidated Financial Statements. Related parties also include key management personnel in the department and their close family members.

There were $12 related party transactions in the year ended September 30, 2020 and $540 for the prior year ended September 30, 2019. Gainers Inc. has a long term debt balance payable to the Province of Alberta of $192,866.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

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Alberta Gaming, Liquor And Cannabis Commission

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Members of Alberta Gaming, Liquor and Cannabis Commission

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Gaming, Liquor and Cannabis Commission (the Commission), which comprise the statement of financial position as at March 31, 2021, and the statements of net income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commission in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 26, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31
(in thousands of dollars)

	Note	2021	2020
ASSETS			
Current Assets			
Cash and cash equivalents	5	$ 202,962	$ 174,753
Trade and other receivables		12,433	3,670
Lease receivables	10	3,694	3,598
Inventories and prepaid expenses	6	80,919	99,340
		300,008	281,361
Non-Current Assets			
Property and equipment	7	229,921	283,837
Intangible assets	8	60,802	66,129
Investment properties	9	141,625	145,717
Lease receivables	10	11,262	14,980
Right-of-use assets	10	8,077	5,917
Investment in Western Canada Lottery Corporation	17	30,219	19,777
		481,906	536,357
TOTAL ASSETS		$ 781,914	$ 817,718
LIABILITIES			
Current Liabilities			
Trade and other payables		$ 195,372	$ 194,716
Lease liabilities	10	6,714	5,415
		202,086	200,131
Non-Current Liabilities			
Due to General Revenue Fund	12	415,244	475,699
Lease liabilities	10	16,425	19,119
Net defined benefit pension liability	13	40,856	53,940
		472,525	548,758
EQUITY			
Retained surplus		106,600	83,300
Accumulated other comprehensive income (loss)	13	703	(14,471)
		107,303	68,829
TOTAL LIABILITIES AND EQUITY		$ 781,914	$ 817,718

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

Approved by

BOARD

[Original signed by]

Elan Harper
Audit and Finance Committee Chair

MANAGEMENT

[Original signed by]

Kandice Machado
Acting President and Chief Executive Officer

Statement of Net Income

For the year ended March 31
(in thousands of dollars)

	Note	2021	2020
Cannabis revenue		$ 469,580	$ 265,728
Cannabis cost of sales		(435,277)	(247,270)
Cannabis net revenue	14	34,303	18,458
Gaming net sales		798,542	1,636,930
Commissions and federal payments		(171,901)	(408,666)
Gaming net revenue	14	626,641	1,228,264
Liquor net revenue	14	921,524	874,774
Net Revenue		1,582,468	2,121,496
Operating expenses	15	(275,250)	(287,487)
Profit from Operations		1,307,218	1,834,009
Other revenue	16	14,831	16,203
Share of income from Western Canada Lottery Corporation	17	336,631	311,772
Net Income	14	1,658,680	2,161,984
Net income allocation to General Revenue Fund	12	(1,635,380)	(1,129,219)
Net income allocation to Alberta Lottery Fund	11	-	(949,465)
Net Income after Allocations		$ 23,300	$ 83,300

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

Statement of Comprehensive Income

For the year ended March 31
(in thousands of dollars)

	Note	2021	2020
Net income	14	$ 1,658,680	$ 2,161,984
Other Comprehensive Income			
Net actuarial gain	13	15,174	6,495
Comprehensive Income		$ 1,673,854	$ 2,168,479

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

Statement of Changes in Equity

For the year ended March 31
(in thousands of dollars)

	Note	2021	2020
Retained Surplus			
Retained surplus, beginning of year		$ 83,300	$ -
Net income after allocations		23,300	83,300
Retained surplus, end of year		106,600	83,300
Accumulated Other Comprehensive Income (Loss)			
Accumulated other comprehensive loss, beginning of year		(14,471)	(20,966)
Other comprehensive income	13	15,174	6,495
Accumulated other comprehensive income (loss), end of year		703	(14,471)
Total Equity		$ 107,303	$ 68,829

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

Statement of Cash Flows

For the year ended March 31
(in thousands of dollars)

	2021	2020
Cash Flows from Operating Activities		
Comprehensive income	$ 1,673,854	$ 2,168,479
Share of income from Western Canada Lottery Corporation	(336,631)	(311,772)
Amortization	81,152	80,651
Lease interest expense	311	153
Lease interest income	(218)	(47)
Loss on disposal of non-current assets	538	5,289
Decrease in net defined benefit pension liability	(13,084)	(9,967)
Net change in non-cash working capital items:		
(Increase) decrease in trade and other receivables	(8,763)	30,036
Decrease (increase) in inventories and prepaid expenses	18,421	(41,303)
Increase (decrease) in trade and other payables	656	(10,690)
	1,416,236	1,910,829
Transfers to General Revenue Fund	(1,695,835)	(1,129,607)
Transfers to Alberta Lottery Fund	-	(999,607)
Net Cash Used in Operating Activities	(279,599)	(218,385)
Cash Flows from Investing Activities		
Purchase of property and equipment	(11,247)	(91,760)
Purchase of intangible assets	(3,806)	(15,836)
Additions to investment properties	(843)	(3,279)
Net proceeds on disposal of non-current assets	293	282
Rental payments received	3,812	662
Advances received from Western Canada Lottery Corporation	326,189	325,486
Net Cash Provided by Investing Activities	314,398	215,555
Cash Flows from Financing Activities		
Lease payments	(6,590)	(2,477)
Net Cash Used in Financing Activities	(6,590)	(2,477)
Net Increase (Decrease) in Cash and Cash Equivalents during the year	28,209	(5,307)
Cash and Cash Equivalents, beginning of year	174,753	180,060
Cash and Cash Equivalents, end of year	$ 202,962	$ 174,753
Supplemental Cash Flow Information		
Interest received	$ 1,102	$ 3,426

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

Notes to the Financial Statements

For the year ended March 31
(in thousands of dollars)

1. Nature of Operations

The Alberta Gaming, Liquor and Cannabis Commission (AGLC) operates under the authority of the *Gaming, Liquor and Cannabis Act* (Act), Revised Statutes of Alberta 2000, Chapter G-1. Under the Act, AGLC was established as a provincial Crown corporation governed by the Board appointed by the Lieutenant General in Council.

The objectives of AGLC are:

a) to administer the Act*;*
b) to conduct and manage provincial lotteries (gaming activities) for the Government of Alberta;
c) to carry out functions respecting gaming delegated to it by the Lieutenant Governor in Council under the Criminal Code;
d) to control, in accordance with the Act, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor;
e) to control, in accordance with the Act, the import, purchase, giving, possession, storage, transportation and use of cannabis;
f) to generate revenue for the Government of Alberta.

The registered office is located at 50 Corriveau Avenue, St. Albert, Alberta.

2. Implications of COVID-19

As a result of the COVID-19 pandemic a number of measures have been implemented by Government of Alberta to contain the spread of the virus. Although liquor and cannabis lines of business continued to perform strongly during the year, the temporary closures of gaming venues had significant impact on the operations and financial results of the gaming line of business.

Compared to 2019-20, the Gaming Net Income in 2020-21 declined by $557,763 (41.9%), resulting in direct reduction in Net Income Allocation to the General Revenue Fund.

As at March 31, 2021, AGLC identified assets that had become idle as a result of temporary closures of gaming facilities and tested the recoverable amounts for impairment. AGLC's assessment determined that the assets will recover their value within a year once gaming facilities resume operations and no impairment loss was recognized.

AGLC also continues to monitor its credit and liquidity risks, and has determined that as of March 31, 2021 there is no significant change to these risks as a result of the COVID-19 pandemic.

Management has considered the impacts of COVID-19 and concluded that they do not create a material uncertainty that casts doubt upon AGLC's ability to continue as a going concern.

3. Significant Accounting Policies

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board.

b) Basis of Presentation

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, the functional currency of AGLC. All values are rounded to the nearest thousand dollars.

The financial statements for the year ended March 31, 2021 were authorized for issue by the Board on May 26, 2021.

c) Financial Instruments

Recognition and Measurement

Financial instruments are classified based on the business model for managing financial instruments and contractual cash flow characteristic of the financial instruments. They are recognized in the Statement of Financial Position when AGLC becomes a party to the contractual terms of the instrument, which represents its trade date.

All financial instruments are initially measured at fair value and are subsequently accounted for based on their classification. Transaction costs directly attributable to acquisition or issue of financial instruments (other than those at fair value through profit or loss) are added or subtracted from the fair value of financial instruments. Transaction costs directly attributable to acquisition or issue of financial instruments at fair value through profit or loss are recognized immediately in profit or loss.

AGLC's financial instruments are classified as following:

Cash and cash equivalents	Debt instrument at amortized cost
Trade and other receivables	Debt instrument at amortized cost
Trade and other payables	Other financial liabilities at amortized cost
Due to General Revenue Fund	Other financial liabilities at amortized cost

Derecognition

Financial assets are derecognized when the contractual cash flows from the assets expire or when AGLC transfers the right to receive the contractual cash flows of the assets. Financial liabilities are derecognized when the contractual obligation under the liability is discharged, cancelled, or it expires. Any differences in the carrying amounts of the financial instruments are recognized in the Statement of Net Income.

Impairment

Financial assets measured at amortized cost are assessed at each reporting date to determine where there is objective evidence of impairment. An expected credit loss impairment model is applied, where expected credit losses are the present value of all cash flows that AGLC expects to receive over the expected life of the financial asset. AGLC recognizes lifetime expected credit losses for trade and other receivables.

d) Inventories

Gaming parts and supplies and cannabis products held for sale are both measured at the lower of cost and net realizable value (NRV). The cost of inventories is determined on a weighted average basis and includes the purchase price, net of trade discounts received, plus other costs incurred in bringing the inventories to their present locations. Inventories are written down to their NRV when the cost of inventories is estimated not to be recoverable through sale or usage. Any write-down to NRV is recognized as expense in the period in which the write-down occurs.

Liquor inventories are held on behalf of liquor suppliers and/or agencies. As such, their value, as well as related duties and taxes, are not recorded in these financial statements.

e) Property and Equipment and Intangible Assets

Property and equipment and intangible assets are reported at cost less accumulated amortization. Where an asset is comprised of major components with different useful lives, the components are accounted for and amortized separately. Amortization begins when the asset is put into use, with no amortization calculated on assets under construction or development. Land is not amortized.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefit will flow to AGLC and the cost can be measured reliably.

The estimated useful life is reviewed on an annual basis for any change in circumstances. The effects of any changes to the estimated useful life are accounted for on a prospective basis.

Gains and losses on the disposal of assets are recorded in the year of disposal.

Amortization is calculated on a straight-line basis over the estimated useful life of assets as follows:

Buildings	Up to 40 years
Leasehold improvements	Lease term
Equipment	Up to 15 years
Computer hardware	Up to 10 years
Gaming equipment and terminals	Up to 8 years
Computer software	Up to 15 years
Gaming software	5 years

f) Investment Properties

Investment properties are comprised of land, buildings or a combination of both that are held by AGLC to earn rental income. They include the liquor distribution and storage facility located at 2 Boudreau Road, leased to Connect Logistics Services Inc., and a warehouse located at 50 Corriveau Avenue. Both facilities are located in St. Albert.

Investment properties are initially recognized at cost and are subsequently carried at cost less accumulated amortization. Where an asset is comprised of major components with different useful lives, the components are accounted for and amortized separately. Amortization begins when the asset is put into use, with no amortization calculated on assets under construction or development. Land is not amortized.

The estimated useful life is reviewed on an annual basis for any change in circumstances. The effects of any changes to the estimated useful life are accounted for on a prospective basis.

Gains and losses on the disposal of assets are recorded in the year of disposal.

Amortization is calculated on a straight-line basis over the estimated useful life of assets as follows:

Buildings	Up to 40 years

g) Defined Benefit Pension Plan

AGLC participates in multi-employer defined benefit pension plans sponsored by the Province of Alberta: the Public Services Pension Plan (PSPP), the Management Employees Pension Plan (MEPP) and the Supplementary Retirement Plan for Public Service Managers (SRP). The cost of providing benefits under the defined benefit plans is determined separately for each plan by independent actuaries based on applicable assumptions. An expense and associated liability for benefits earned are recognized in the period that employee services have been rendered. Under defined benefit pension plan accounting, AGLC must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, remeasurement amounts and service costs.

For defined benefit pension plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The liability is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash flows using a discount rate based on market yields of high quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to form the liability over the projected period to its future value. Remeasurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

The Net Defined Benefit Pension Liability, including the underlying assumptions for future salary increases, inflation rates and discount rates, is reviewed annually.

h) Investment in an Associate – Western Canada Lottery Corporation

Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on April 16, 1974 and was continued under the *Canada Not-for-profit Corporations Act* on June 30, 2014. It is a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities for its members – the Governments of Alberta, Saskatchewan and Manitoba. Yukon, the Northwest Territories and Nunavut participate as associate members.

AGLC has significant influence, but no control or joint control, over the financial and operating policy decisions of WCLC. As a result, AGLC's investment in WCLC (considered an associate) is accounted for using the equity method of consolidation.

Under the equity method, the investment in WCLC is reported in the Statement of Financial Position at cost, including post-acquisition changes in AGLC's share of net assets of WCLC.

The Statement of Net Income reflects AGLC's share of the results of WCLC's operations. Where there has been a change recognized directly in the equity of WCLC, AGLC recognizes its share of any changes and discloses this, when applicable, in Due to General Revenue Fund. Unrealized gains and losses resulting from transactions between AGLC and WCLC are eliminated to the extent of the interest in WCLC.

The financial statements of WCLC are prepared in accordance with IFRS, for the same reporting period as AGLC. Where necessary, adjustments are made to bring the accounting policies into conformity with those of AGLC.

If there were indicators that the investment in WCLC is impaired, AGLC would calculate the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value. This difference would be recognized in net income from WCLC in the Statement of Net Income.

Upon any loss of significant influence over WCLC, AGLC would measure and recognize any remaining investment at its fair value. Any difference between the carrying amount of WCLC and the fair value of the investment and proceeds from disposal would be recognized in the Statement of Net Income.

i) Impairment of Non-Financial Assets

At each reporting date, if there are indicators that non-financial assets carried at amortized cost may be impaired, AGLC would complete a formal impairment assessment. For this purpose, non-financial assets would be grouped at the lowest level for which there are separately identifiable cash inflows, referred to as cash-generating units. An impairment loss is the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a cash generating unit's fair value less costs to sell and its value in use. Impairment losses would be recognized in the Statement of Net Income.

For previously impaired non-financial assets, an assessment is made annually to determine if there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, AGLC would estimate the recoverable amount. A previously recognized impairment loss would only be reversed if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. An impairment loss would only be reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized in prior years. Such impairment loss reversal would be recognized in the Statement of Net Income, in a manner consistent with the originally recognized impairment loss.

j) Leases

As a Lessor

Leases in which AGLC assumes substantially all the risks and rewards of ownership are classified as financial leases, while all other leases are classified as operating leases. All leases with AGLC as a lessor (properties classified as Investment Properties) have been classified as operating leases, with lease income recognized in net income on a straight line basis over the term of the lease. Expenses incurred in earning lease income are expensed as incurred.

As a Lessee

At inception of an arrangement, AGLC determines whether the arrangement is, or contains, a lease.

AGLC leases properties (offices, warehouses and storage facilities) and vehicles. Contracts are typically made for fixed terms, but some may include extension options.

As a lessee, AGLC applies a single recognition and measurement approach for all leases, except for short-term leases, and recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to account for the present value of the future lease payments. Extension options are included in the assessment if AGLC is reasonably certain to exercise the options.

Right-of-use assets

AGLC recognizes right-of-use assets at the commencement date of the lease when the underlying asset is available for use. Right-of-use assets are measured at cost, including the lease and non-lease components of the lease arrangement, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date. Right-of-use assets are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets, as follows:

Property	Up to 5 years
Vehicles	Up to 3 years

The right-of-use assets are also subject to impairment as described in Note 3i.

Lease liabilities

At the commencement date of the lease, AGLC recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments and incorporate the lease and non-lease components of the lease arrangement (including in-substance fixed payments).

In calculating the present value of lease payments, AGLC uses the interest rate implicit in the lease or its incremental borrowing rate (IBR) if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is reduced by the principal portion of the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments.

Short-term leases and leases of low-value assets

AGLC applies the short-term lease recognition exemption to its short-term leases (leases with a term of up to 12 months) of gaming equipment. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense over the lease term.

Subleases

AGLC also has several property contracts which have been subleased to third parties. In these cases, AGLC as the original lessee, accounts for the original lease (the head lease) as a lessee and for the sublease as the lessor (intermediate lessor).

AGLC, as the intermediate lessor, recognizes lease receivables in the Statement of Financial Position and accounts for the head lease liability in accordance with the lessee accounting model.

k) Revenue from Contracts with Customers

AGLC's revenue is generated primarily from gaming activities (including revenue from slot terminals, video lottery terminals and online gambling), as well as the selling of liquor and cannabis. Revenue is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which AGLC expects to be entitled in exchange for those goods or services. AGLC has concluded that it is the principal in its revenue arrangements for gaming activities and cannabis and an agent for liquor transactions based on the control of goods or services before they are transferred to the customer.

The disclosures of significant accounting estimates, assumptions and critical judgments related to revenue from customers are provided in the respective note to financial statements.

Gaming Revenue

Gaming revenue, including online gambling, is comprised of one performance obligation which is honouring the outcome of the game played and making the appropriate payout. AGLC recognizes revenue from the gaming activities based on the net win or loss immediately as it is determined since no further performance obligations exist. Payment from the customer is required to initiate the game play.

Player Engagement Program

AGLC administers and manages Winner's Edge, a Player Engagement Program (PEP), which allows players to accumulate loyalty points for slot terminal play that can be redeemed for free plays or additional ballots for designated promotional draws. PEP loyalty points give rise to a separate performance obligation, as they provide a material right to the player. A portion of the slot terminal transaction price is allocated to the PEP loyalty points awarded to customers, based on relative stand-alone selling price, and recognized as a contract liability until the PEP loyalty points are redeemed. Revenue is recognized upon redemption of PEP loyalty points by the customer.

When estimating the stand-alone selling price of the PEP loyalty points, AGLC considers the likelihood that the customer will redeem the loyalty points within the expiration period. AGLC updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the liability balance are recognized against revenue.

Sale of Liquor

AGLC purchases liquor products from liquor suppliers and registered agencies to warehouse and distribute based on a consignment model. As liquor warehousing and distribution is managed by third party providers, AGLC is acting as an agent in these arrangements, resulting in revenue being recorded on a net basis, recognized at the point in time when control for the goods is provided to the third party provider. Payment is required before the goods are transferred.

Sale of Cannabis

AGLC purchases cannabis products from licensed producers and is responsible for warehousing and distribution of recreational cannabis products to licensed retailers and directly to Albertans through an online platform. AGLC maintains direct control of cannabis products and thus is a principal in the arrangement and records revenue on a gross basis. Revenue from sale of cannabis is recognized at the point in time when control of the goods is transferred to the customer on delivery. Payment is required before the goods are transferred.

l) Federal and Provincial Taxes

As a Government of Alberta entity, AGLC is exempt from paying Goods and Services Tax (GST) on purchases of taxable supplies and services related to liquor and cannabis operations.

As a Provincial Gaming Authority, AGLC is a prescribed registrant under the Games of Chance (GST/HST) Regulations of the *Excise Tax Act* (the Regulations). AGLC is obligated to calculate and remit GST for gaming related operations pursuant to these Regulations.

m) Operating Expenses

Operating expenses are allocated against gaming, liquor and cannabis revenue sectors based on the nature of the expenses.

n) Allocation of Net Income

The Act requires AGLC to transfer the net income to the General Revenue Fund. Note 12 provides additional information regarding the amount due to the General Revenue Fund.

Until disestablishment of the Alberta Lottery Fund on December 5, 2019, net income arising from the conduct of authorized casino gaming, video lottery, lottery ticket and electronic bingo was transferred to the Alberta Lottery Fund. Note 11 provides additional information regarding prior year's transactions related to the Alberta Lottery Fund.

o) Contingent Liabilities and Provisions

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed by occurrence or non-occurrence of uncertain future events, or are present obligations that are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligation cannot be reliably measured.

Provisions are recognized if, as a result of a past event, AGLC has a present legal or constructive obligation, 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 Net Income, net of any reimbursement.

p) Future Accounting Policy Changes

Future accounting policy changes are based on standards issued, but not yet effective, up to the date of the issuance of the financial statements. The following information is of standards and interpretations issued, which may be relevant and applicable at a future date.

IAS 16 *Property, Plant and Equipment* – amendments effective for annual reporting periods starting on or after January 1, 2022. These amendments introduce new guidance stipulating that proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost of property, plant and equipment. Moving forward such proceeds should be recognized in profit or loss, together with the costs of producing those items. Management is currently assessing the impact of this standard.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – amendments effective for annual reporting periods starting on or after January 1, 2022. These amendments clarify that, when assessing if a contract in onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract. Such costs include both the incremental costs and/or allocation of other costs incurred on activities required to fulfill the contract. Management is currently assessing the impact of this standard.

4. Significant Accounting Estimates, Assumptions and Critical Judgments

In conformity with IFRS, the preparation of AGLC'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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of affected assets or liabilities in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis and applied prospectively.

For property and equipment, intangible assets and investment properties, judgment is used to estimate the useful life of the assets, based on an analysis of all pertinent factors including the expected use of the asset/asset category. If the estimated useful lives are 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/loss recorded in Other Comprehensive Income (Loss) in the Statement of Comprehensive Income.

When accounting for leases where the interest rate implicit in the lease cannot be readily determined, AGLC uses its IBR to measure lease liabilities. The IBR is the rate of interest that AGLC would have to pay to borrow funds over a similar term, and with a similar security, necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects an estimated rate that AGLC 'would have to pay'.

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 amounts of assets and liabilities are described throughout these notes to the financial statements. AGLC based its assumptions and estimates on parameters available during the preparation of the financial statements. Existing circumstances and assumptions about future development(s) may change due to market changes or circumstances, arising beyond the control of management. Such changes are reflected in the assumptions as they occur.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, current balances in banks and deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Government of Alberta, as well as funds under administration.

The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities with a maximum term to maturity of three years. For the year ended March 31, 2021, securities held by the CCITF had a time-weighted yield of 0.5% per annum (2020 - 1.8% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

A total of $69 (2020 - $13,690) in funds under administration is comprised of proceeds from table games that AGLC holds on behalf of charities. AGLC manages the collection of these funds, as well as 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 AGLC and pooled by casino or region; these funds earn interest and are subject to administrative fees. At the end of the pooling period (quarterly), the net proceeds in each pool are distributed equally to each charity that held a licensed charitable casino event in the casino/region during the pooling period.

6. Inventories and Prepaid Expenses

	2021	2020
Gaming parts and supplies	$ 12,793	$ 13,132
Cannabis inventories	63,283	82,714
Total inventories	76,076	95,846
Prepaid expenses	4,843	3,494
	$ 80,919	$ 99,340

7. Property and Equipment

	2021						2020
	Land	Building and Leasehold Improvements	Equipment	Computer Hardware	Gaming Equipment and Terminals	Total	Total
Cost, beginning of year	$ 2,057	$ 45,500	$ 15,403	$ 29,700	$ 541,836	$ 634,496	$ 627,569
Additions	-	1,735	695	3,226	5,591	11,247	91,760
Disposals	-	(3,729)	(568)	(510)	(33,633)	(38,440)	(84,833)
Cost, end of year	2,057	43,506	15,530	32,416	513,794	607,303	634,496
Accumulated amortization, beginning of year	-	(27,215)	(8,700)	(21,493)	(293,251)	(350,659)	(365,504)
Additions	-	(2,026)	(1,602)	(3,699)	(57,018)	(64,345)	(64,442)
Disposals	-	3,666	568	510	32,878	37,622	79,287
Accumulated amortization, end of year	-	(25,575)	(9,734)	(24,682)	(317,391)	(377,382)	(350,659)
Net book value, end of year	$ 2,057	$ 17,931	$ 5,796	$ 7,734	$ 196,403	$ 229,921	$ 283,837

Total cost includes $3,688 (2020 - $14,048) of assets classified as work in progress (under construction or development).

8. Intangible Assets

	2021			2020
	Computer Software	Gaming Software	Total	Total
Cost, beginning of year	$ 88,417	$ 37,888	$ 126,305	$ 110,494
Additions	1,324	2,482	3,806	15,836
Disposals	-	(962)	(962)	(25)
Cost, end of year	89,741	39,408	129,149	126,305
Accumulated amortization, beginning of year	(29,208)	(30,968)	(60,176)	(50,618)
Additions	(6,487)	(2,646)	(9,133)	(9,558)
Disposals	-	962	962	-
Accumulated amortization, end of year	(35,695)	(32,652)	(68,347)	(60,176)
Net book value, end of year	$ 54,046	$ 6,756	$ 60,802	$ 66,129

Total cost includes $582 (2020 - $11) of assets classified as work in progress (under development).

9. Investment Properties

	2021			2020
	Land	Buildings	Total	Total
Cost, beginning of year	$ 22,746	$ 155,007	$ 177,753	$ 174,474
Additions	-	843	843	3,279
Disposals	-	(4,019)	(4,019)	-
Cost, end of year	22,746	151,831	174,577	177,753
Accumulated amortization, beginning of year	-	(32,036)	(32,036)	(27,133)
Additions	-	(4,922)	(4,922)	(4,903)
Disposals	-	4,006	4,006	-
Accumulated amortization, end of year	-	(32,952)	(32,952)	(32,036)
Net book value, end of year	$ 22,746	$ 118,879	$ 141,625	$ 145,717

Total cost includes $35 (2020 - $35) of assets classified as work in progress (under construction or development).

a) Net Loss from Investment Properties

		2021	2020
Rental income derived from investment properties	$	3,900 $	3,058
Direct operating expenses (including repair and maintenance)		(3,905)	(3,708)
Net loss arising from investment properties	$	(5) $	(650)

Currently monthly rental income for investment properties is $315 (2020 - $255).

b) Investment properties are recorded and reported at cost.

On March 31, 2021 the estimated fair value of investment properties is $182,775 (2020 - $187,435).

The fair value is based on a valuation performed by Bourgeois Brooke Chin Associates, an accredited independent valuator. Bourgeois Brooke Chin Associates has appropriate qualifications and recent experience in the valuation of similar properties.

The fair value valuation was performed on the liquor distribution and storage facilities at 2 Boudreau Road and warehouse at 50 Corriveau Avenue using income, cost and direct comparison approaches. Both properties are located in St. Albert, Alberta.

10. Leases

The carrying amounts of right-of-use assets during the period:

		2021		2020
Right-of-use assets, beginning of year	$	5,917	$	7,264
Additions		4,911		401
Amortization		(2,751)		(1,748)
Right-of-use assets, end of year	$	8,077	$	5,917

The carrying amounts of lease liabilities during the period:

	2021			2020		
Lease liabilities, beginning of year		$	24,534		$	7,669
Additions			4,884			19,189
Lease payments	(6,590)			(2,477)		
Interest expense	311			153		
Principal component of lease payments			(6,279)			(2,324)
Lease liabilities, end of year		$	23,139		$	24,534
Current liabilities		$	6,714		$	5,415
Non-current liabilities		$	16,425		$	19,119

Undiscounted lease payments related to lease liabilities that are expected to be made over the next five fiscal years and thereafter are as follows:

2022	$	6,949
2023		6,822
2024		5,940
2025		3,692
2026		37
Thereafter		209
	$	23,649

The carrying amounts of lease receivables during the period:

	2021			2020		
Lease receivables, beginning of year		$	18,578		$	405
Additions			-			18,788
Adjustments			(28)			-
Rental payments received	(3,812)			(662)		
Interest income	218			47		
Principal component of lease receivables			(3,594)			(615)
Lease receivables, end of year		$	14,956		$	18,578
Current assets		$	3,694		$	3,598
Non-current assets		$	11,262		$	14,980

Undiscounted lease payments related to lease receivables that are expected to be received over the next five fiscal years and thereafter are as follows:

2022	$	3,866
2023		3,922
2024		3,975
2025		3,356
2026		37
Thereafter		209
	$	15,365

The following amounts were recognized in the Statement of Net Income:

		2021	2020
Right-of-use assets - amortization	$	(2,751) $	(1,748)
Interest expense		(311)	(153)
Interest income		218	47
Operating expenses - short-term leases		(9,763)	(27,078)
Component of net income	$	(12,607) $	(28,932)

In 2021, AGLC had total cash outflows for all leases of $16,353 (2020 - $29,555), non-cash additions to right-of-use assets of $4,911 (2020 - $401) and non-cash additions to lease liabilities of $4,884 (2020 - $19,189).

11. Due to Alberta Lottery Fund

The Act required AGLC to transfer the net income from gaming activities to the Alberta Lottery Fund until December 5, 2019 when the *Fiscal Measures and Taxation Act, 2019* (Bill 20) disestablished the Alberta Lottery Fund. The Alberta Lottery Fund's net assets were subsequently transferred by AGLC to the General Revenue Fund.

		2021	2020
Due to Alberta Lottery Fund, beginning of year	$	- $	50,142
Net income allocation to Alberta Lottery Fund		-	949,465
Transfers to Alberta Lottery Fund		-	(999,607)
Due to Alberta Lottery Fund, end of year	$	- $	-

Subsequent to Bill 20, the net income from gaming activities was transferred to the General Revenue Fund.

12. Due to General Revenue Fund

The Act requires AGLC to transfer the net income, net of income retained for Retained Surplus, to the General Revenue Fund. The amount below represents the portion of net income which has not been transferred to the General Revenue Fund.

		2021	2020
Due to General Revenue Fund, beginning of year	$	475,699 $	476,087
Net income allocation to General Revenue Fund		1,635,380	1,129,219
Transfers to General Revenue Fund		(1,695,835)	(1,129,607)
Due to General Revenue Fund, end of year	$	415,244 $	475,699

Amounts due to General Revenue Fund are unsecured, non-interest bearing and have no specific terms of repayment. AGLC does not expect to pay the total amount owing to General Revenue Fund during the next fiscal year.

13. Employee Benefit Plans

Change in Net Defined Benefit Pension Liability

	2021				2020
	PSPP	MEPP	SRP	Total	Total
Change in Fair Value of Plan Assets					
Fair value of plan assets, beginning of year	$ 171,541	$ 54,071	$ 1,070	$ 226,682	$ 217,920
Employer contributions	8,128	1,929	41	10,098	10,762
Benefits paid	(8,597)	(3,088)	(52)	(11,737)	(10,840)
Interest income	6,510	2,033	40	8,583	7,192
Actuarial gain on plan assets	22,678	6,985	147	29,810	1,648
Fair value of plan assets, end of year	$ 200,260	$ 61,930	$ 1,246	$ 263,436	$ 226,682
Change in Defined Benefit Obligation					
Defined benefit obligation, beginning of year	$ 210,759	$ 68,202	$ 1,661	$ 280,622	$ 281,827
Current service cost	7,435	2,650	53	10,138	11,540
Benefits paid	(8,597)	(3,088)	(52)	(11,737)	(10,840)
Interest expense	7,987	2,583	63	10,633	9,314
Actuarial gain (loss) on plan liabilities	10,929	3,720	(13)	14,636	(4,847)
Prior service costs, settlements & curtailments	-	-	-	-	(6,372)
Defined benefit obligation, end of year	228,513	74,067	1,712	304,292	280,622
Net Defined Benefit Pension Liability	$ (28,253)	$ (12,137)	$ (466)	$ (40,856)	$ (53,940)

Employer's portion of the Net Defined Benefit Pension Liability is recorded as a provision and included as a liability in the Statement of Financial Position. The portions attributable to AGLC are 50% for PSPP, 51% for MEPP and 64% for SRP.

Accumulated Other Comprehensive Loss (AOCL)

	2021				2020
	PSPP	MEPP	SRP	Total	Total
Actuarial gain on plan assets	$ (22,678)	$ (6,985)	$ (147)	$ (29,810)	$ (1,648)
Actuarial (gain) loss on plan liabilities	10,929	3,720	(13)	14,636	(4,847)
Net actuarial gain	(11,749)	(3,265)	(160)	(15,174)	(6,495)
AOCL, beginning of year	11,382	2,849	240	14,471	20,966
AOCL, end of year	$ (367)	$ (416)	$ 80	$ (703)	$ 14,471

Pension Expense

	2021				2020
	PSPP	MEPP	SRP	Total	Total
Current service cost	$ 7,435	$ 2,650	$ 53	$ 10,138	$ 11,540
Past service cost	-	-	-	-	(6,372)
Interest expense	7,987	2,583	63	10,633	9,314
Interest income	(6,510)	(2,033)	(40)	(8,583)	(7,192)
Pension expense	$ 8,912	$ 3,200	$ 76	$ 12,188	$ 7,290

Key Assumptions, Sensitivities and Risks

The principal assumptions used in the actuarial determinations of projected benefit obligations and the related net benefit expense are as follows:

	2021			2020		
	PSPP	**MEPP**	**SRP**	**PSPP**	**MEPP**	**SRP**
Discount rate	3.30%	3.30%	3.40%	3.80%	3.80%	3.80%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Average wage increases	3.00%	0.00% until Mar. 31, 2022; 3.00% thereafter	0.00% until Mar. 31, 2022; 3.00% thereafter	3.00%	3.00%	3.00%
AGLC's share of plan payroll	2.54%	2.17%	0.92%	2.54%	2.17%	0.92%
Date of the most recent actuarial valuation	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2018
AGLC's expected contributions for the next period - all plans		$11,002			$10, 829	

Additional assumptions are described in the valuation reports for each of the respective plans.

	2021			2020		
	PSPP	**MEPP**	**SRP**	**PSPP**	**MEPP**	**SRP**
Estimated sensitivity of liabilities to a 1% change in the discount rate	14.70%	13.90%	18.00%	14.10%	13.80%	18.00%
Estimated sensitivity of liabilities to a 1% change in the inflation rate	6.80%	7.40%	8.10%	6.60%	7.00%	8.40%

Economic risk

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 risk

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to factors such as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, AGLC 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 responsible parties

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.

14. Detailed Operating Results

Management monitors the operating results of the lines of business in order to make decisions about resource allocation and performance assessment.

	2021				2020
	Gaming (a)	Liquor	Cannabis (b)	Total	Total
Net revenue	$ 626,641	$ 921,524	$ 34,303	$ 1,582,468	$ 2,121,496
Operating expenses	(192,404)	(33,458)	(49,388)	(275,250)	(287,487)
Profit (loss) from operations	434,237	888,066	(15,085)	1,307,218	1,834,009
Other revenue	2,740	9,039	3,052	14,831	16,203
Share of income from WCLC	336,631	-	-	336,631	311,772
Net income (loss)	$ 773,608	$ 897,105	$ (12,033)	$ 1,658,680	$ 2,161,984

(a) includes slot terminals, video lottery terminals and online gambling.
(b) includes sales to licensed retailers and sales through an online platform.

Gaming net revenue is comprised of the following:

	2021	2020 (d)
Net sales	$ 798,542	$ 1,636,930
Commissions		
Operators/retailers	(121,657)	(245,684)
Charities	(44,161)	(150,698)
Federal tax expense (c)	(6,083)	(12,284)
Net revenue	$ 626,641	$ 1,228,264

(c) as prescribed by the Games of Chance (GST/HST) Regulations of the *Excise Tax Act* (the Regulations) taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) based on a formula set out in the Regulations. 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 aforementioned formula.
(d) includes slot terminals, video lottery terminals and electronic bingo.

15. Operating Expenses

	2021	2020
Salaries and benefits	$ 107,855	$ 105,378
Supplies and services		
Fees and services	20,572	15,990
Data processing	15,702	13,782
Marketing and retailer relations	9,843	6,349
Equipment and vehicle	7,748	9,078
Property	6,033	3,595
Goods and Service Tax	5,006	7,854
Insurance and bank changes	3,652	3,107
Data communications	3,368	5,921
Miscellaneous	967	889
Travel and training	663	2,168
Stationary and supplies	493	1,398
Liquor product expense	228	234
Freight and ticket product delivery	155	1,893
	74,430	72,258
Leased gaming equipment	9,763	27,078
Net interest in net defined benefit pension plan	2,050	2,122
Amortization	81,152	80,651
	$ 275,250	$ 287,487

16. Other Revenue

	2021	2020
Licences, fees and fines	$ 8,129	$ 10,976
Premises rental	3,900	3,058
Interest	1,102	3,426
Miscellaneous	1,069	1,508
Chargebacks and recoveries	684	759
Liquor levies	485	1,765
Loss on disposal of non-current assets	(538)	(5,289)
	$ 14,831	$ 16,203

17. Investment in Western Canada Lottery Corporation

AGLC's interest in the Western Canada Lottery Corporation (WCLC) is based on Alberta's proportionate share of WCLC's revenues and expenses derived from the sale and operation of interprovincial lottery games. WCLC is a non-profit entity that is not listed on any public exchange.

The following tables present summarized financial information of AGLC's investment in WCLC.

	2021	2020
WCLC Statement of Financial Position		
Current assets	$ 89,356	$ 70,481
Property and equipment	29,993	27,635
Intangible assets	10,598	9,173
	$ 129,947	$ 107,289
Current liabilities	$ 127,892	$ 107,665
Employee benefits	(501)	2,989
Equity	2,556	(3,365)
	$ 129,947	$ 107,289
Alberta's Proportionate Share of Revenues and Expenses		
Lottery sales (a)	$ 963,772	$ 917,892
Direct expenses (a)	(582,104)	(560,511)
Gross income	381,668	357,381
Operating expenses	(32,123)	(33,342)
Interest and other income	1,951	2,518
Net income from operations	351,496	326,557
Federal tax expense (a)	(5,110)	(5,159)
Payment to Federal Government (b)	(9,755)	(9,626)
Share of income from WCLC	$ 336,631	$ 311,772

(a) Online 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 tax expenses related to ticket revenues are recognized on the same basis as related revenues.
(b) Payment made to the federal government 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

	2021	2020
Investment in WCLC, beginning of year	$ 19,777	$ 33,491
Share of income from WCLC	336,631	311,772
Advances received from WCLC	(326,189)	(325,486)
Investment in WCLC, end of year	$ 30,219	$ 19,777

18. Contractual Obligations

AGLC has various obligations under long-term contracts, including service contracts and operating leases. Undiscounted payments related to finance leases are disclosed in Note 10. The total expected payments for contractual obligations for each of the next five fiscal years and thereafter are as follows:

2022	$	31,968
2023		16,434
2024		9,278
2025		6,604
2026		4,650
Thereafter		9,300
	$	78,234

19. Contingent Liabilities

AGLC has been named as a defendant in several legal actions and claims. While the outcome of these claims cannot be determined, management is of the opinion that the ultimate outcome is not expected to have material adverse effect in the financial position or operations of AGLC.

20. Salaries and Benefits

The following table discloses the amounts earned by the Board and senior executives in the years ended March 31:

	Note	2021 Base Salary (a)	2021 Other Cash Benefits (b)	2021 Other Non-Cash Benefits (c)	2021 Total	2020 Total
Chair of the Board		$ 138	$ -	$ 2	$ 140	$ 149
Members of the Board	d	374	-	15	389	289
President and Chief Executive Officer	e	260	402	57	719	332
Executive Members						
Chief Operating Officer		231	1	50	282	291
VP, Corporate Services and Chief Financial Officer	f	192	18	46	256	251
VP, Human Resources		201	-	47	248	256
VP, Regulatory Services		201	1	44	246	251
VP, Liquor Services		182	1	42	225	228
VP, Policy and Public Affairs		175	2	38	215	36
VP, Corporate Strategic Services and Chief Risk Officer	g	65	3	12	80	232
VP, Information Technology and Chief Information Officer	h	-	-	-	-	179

(a) Consists of regular base pay, including acting pay. For Chair and members of the Board, it consists of remuneration paid, based on rates prescribed in the *Committee Remuneration Order*, for time spent on the business of the Board.

(b) Consists of vacation payouts, severance payments, honoraria and health and personal spending account payments. There were no bonuses paid during the year.

(c) Include AGLC's share of employee benefits and contributions/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) At any given time the Board consisted of no more than 8 members plus the Chair, whose remuneration is disclosed separately. Fiscal 2021 is the first year of reporting with 8 members during the entire fiscal year.

(e) Other cash benefits include $303 of severance benefits paid as a result of a termination agreement and automobile benefits of $6 (2020 - $6). Occupancy of the position changed on November 24, 2020.

(f) Occupancy of the position changed on November 27, 2020.

(g) Occupancy of the position ended on April 16, 2020, however total includes extended vacation period until August 7, 2020.

(h) Position eliminated on January 26, 2020.

21. Financial Instruments and Risk Management

AGLC's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables and payables to the General Revenue Fund. The carrying values of AGLC's financial instruments approximate their fair values, unless otherwise noted.

AGLC is exposed to credit and liquidity risks from financial assets and liabilities. AGLC actively manages the exposure to these risks.

Credit risk represents the loss that would be recognized if parties holding financial assets of AGLC fail to honour their obligations or pay amounts due causing a financial loss. Credit risk is minimized as AGLC does not have significant exposure to any individual retail entity.

Liquidity risk is the risk that AGLC would encounter difficulties in meeting its financial obligations as they become due. The risk is reduced as the majority of AGLC's operational activities involve cash sales and short-term accounts receivables. AGLC relies on the funds generated from its operations to meet operating requirements and to finance capital investments. The risk is further mitigated by forecasting and assessing actual cash flow requirements on an ongoing basis.

22. Related Party Transactions

AGLC is a wholly-owned Crown corporation of the Government of Alberta. All transactions with the Government of Alberta ministries, agencies and Crown corporations are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions.

AGLC reports to the President of Treasury Board and Minister of Finance. Any ministry, department, fund or entity the Minister is responsible for is a related party to AGLC. These include:

- Department of Treasury Board and Finance
- Alberta Risk Management Fund
- General Revenue Fund

During the year AGLC made payments totaling $468 (2020 - $462) to the Alberta Risk Management Fund. Transactions with the General Revenue Fund are disclosed in Note 12.

Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 3h, is also a related party to AGLC. Details of transactions with WCLC are disclosed in Note 17. In addition to these transactions, AGLC received $705 (2020 - $746) in retailer service fees from WCLC.

The Board members of AGLC, executive management and their close family members are related parties to AGLC. Compensation for the Board members and executive management is disclosed in Note 20, while transactions with close family members are immaterial.

23. Approved Budget

AGLC includes its annual budget in its business plan. On recommendation from the Board, the budget receives approval by the President of Treasury Board and Minister of Finance and becomes part of the fiscal plan of the Government of Alberta.

	2021
Cannabis revenue	$ 232,188
Cannabis cost of sales	(218,930)
Cannabis net revenue	13,258
Gaming net sales	1,803,866
Commissions and federal payments	(456,918)
Gaming net revenue	1,346,948
Liquor net revenue	870,887
Net revenue	2,231,093
Operating expenses	(350,888)
Profit from operations	1,880,205
Other revenue	14,089
Share of income from Western Canada Lottery Corporation	309,336
Net income	$ 2,203,630

24. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

ATB Financial

Financial Statements

March 31, 2021

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These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2021 Annual and Corporate Social Responsibility Report. A complete copy of the ATB Financial Annual and Corporate Social Responsibility 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

Auditor General
OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of ATB Financial (the Group), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Group in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *2021 Annual Report*, but does not include the consolidated financial statements and my auditor’s report thereon.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed on this other information, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 20, 2021
Edmonton, Alberta

Consolidated Statement of Financial Position

As at *($ in thousands)*	Note	**March 31 2021**	March 31 2020
Cash	6	**$ 4,643,603**	$ 1,312,544
Interest-bearing deposits with financial institutions		**389,471**	101,028
Total cash resources		**5,033,074**	1,413,572
Securities measured at fair value through profit or loss		**92,093**	45,302
Securities measured at fair value through other comprehensive income		**3,534,514**	4,586,224
Total securities	7	**3,626,607**	4,631,526
Business		**23,197,080**	24,369,982
Residential mortgages		**15,833,810**	16,212,297
Personal		**5,631,547**	6,369,432
Credit card		**660,652**	729,712
Total gross loans		**45,323,089**	47,681,423
Allowance for loan losses	9	**(725,867)**	(635,189)
Total net loans	8	**44,597,222**	47,046,234
Derivative financial instruments	10	**1,181,796**	1,539,634
Property and equipment	11	**238,269**	279,000
Software and other intangibles	12	**282,708**	308,819
Other assets	13	**795,359**	646,737
Total other assets		**2,498,132**	2,774,190
Total assets		**$ 55,755,035**	$ 55,865,522
Redeemable fixed-date deposits		**$ 1,828,748**	$ 1,462,566
Non-redeemable fixed-date deposits		**6,014,076**	8,527,652
Savings accounts		**12,241,167**	9,485,318
Transaction accounts		**12,035,331**	8,653,216
Notice accounts		**5,639,066**	7,244,615
Total deposits	14	**37,758,388**	35,373,367
Securities sold under repurchase agreements		**14,730**	350,828
Wholesale borrowings	21	**3,508,819**	4,402,167
Collateralized borrowings	15	**7,931,082**	8,545,092
Derivative financial instruments	10	**921,411**	989,256
Other liabilities	16	**1,545,682**	2,123,703
Total other liabilities		**13,921,724**	16,411,046
Total liabilities		**51,680,112**	51,784,413
Retained earnings		**3,961,408**	3,752,651
Accumulated other comprehensive income		**113,515**	328,458
Total equity		**4,074,923**	4,081,109
Total liabilities and equity		**$ 55,755,035**	$ 55,865,522

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

Approved by the Board:

Original signed by
Joan Hertz
Chair of the Board

Original signed by
Barry James
Chair of the Audit Committee

Consolidated Statement of Income

For the year ended March 31 *($ in thousands)*	Note	**2021**	2020
Loans		**$ 1,767,527**	$ 1,981,498
Securities		**16,364**	86,088
Interest-bearing deposits with financial institutions		**9,161**	15,038
Interest income		**1,793,052**	2,082,624
Deposits		**397,606**	605,868
Wholesale borrowings		**65,871**	86,971
Collateralized borrowings		**151,006**	189,619
Subordinated debentures	17	**2**	5,977
Interest expense		**614,485**	888,435
Net interest income		**1,178,567**	1,194,189
Wealth management		**237,065**	221,431
Service charges		**71,943**	75,463
Card fees		**61,345**	65,103
Credit fees		**49,319**	44,865
Insurance		**23,848**	24,987
Capital markets revenue		**49,060**	20,275
Foreign exchange		**32,248**	21,709
Net gains on derivative financial instruments		**56,811**	41,443
Net gains on securities		**6,475**	11,353
Sundry		**11,266**	6,000
Other income		**599,380**	532,629
Operating revenue		**1,777,947**	1,726,818
Provision for loan losses	9	**271,085**	385,980
Salaries and employee benefits	18,19	**674,913**	663,461
Data processing		**132,661**	121,478
Premises and occupancy, including depreciation		**90,430**	82,639
Professional and consulting costs		**63,402**	67,141
Deposit guarantee fee	14	**52,442**	46,690
Equipment, including depreciation		**20,782**	23,824
Software and other intangibles amortization	12	**81,740**	77,155
General and administrative		**57,127**	83,328
ATB agencies		**14,898**	13,812
Other		**45,058**	28,727
Non-interest expense		**1,233,453**	1,208,255
Net income before payment in lieu of tax		**273,409**	132,583
Payment in lieu of tax	20	**62,884**	30,675
Net income		**$ 210,525**	$ 101,908
Net income attributable to ATB		**$ 210,525**	$ 103,350
Net loss attributable to non-controlling interests	26	**-**	(1,442)

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

Consolidated Statement of Operations Comprehensive Income

For the year ended March 31 *($ in thousands)*	**2021**	2020
Net income	**$ 210,525**	$ 101,908
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss		
Unrealized net gains (losses) on securities measured at fair value through other comprehensive income (loss)		
Unrealized net gains (losses) arising during the period	**7,379**	8,742
Net (gains) losses reclassified to net income	**(6,908)**	(9,333)
Unrealized net gains (losses) on derivative financial instruments designated as cash flow hedges		
Unrealized net gains (losses) arising during the period	**(168,173)**	359,809
Net (gains) losses reclassified to net income	**(32,724)**	(80,749)
Items that will not be reclassified to profit or loss		
Remeasurement of defined-benefit-plan liabilities	**(14,517)**	63,141
Other comprehensive income (loss)	**(214,943)**	341,610
Comprehensive income (loss)	**$ (4,418)**	$ 443,518
Attributable to:		
ATB	**$ (4,418)**	$ 444,960
Non-controlling interests	**-**	(1,442)

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

Consolidated Statement of Changes in Equity

For the year ended March 31 *($ in thousands)*	**2021**	2020
Retained earnings		
Balance at beginning of the year	**$ 3,752,651**	$ 3,652,955
Net income attributable to ATB	**210,525**	103,350
Other	**(1,768)**	(3,654)
Balance at end of the year	**3,961,408**	3,752,651
Non-controlling interest		
Balance at beginning of the year	**-**	4,314
Net loss attributable to non-controlling interests in subsidiaries	**-**	(1,442)
Other (1)	**-**	(2,872)
Balance at end of the year	**-**	-
Accumulated other comprehensive income (loss)		
Securities measured at fair value through other comprehensive income		
Balance at beginning of the year	**(2,408)**	(1,817)
Other comprehensive income (loss)	**471**	(591)
Balance at end of the year	**(1,937)**	(2,408)
Derivative financial instruments designated as cash flow hedges		
Balance at beginning of the year	**332,642**	53,582
Other comprehensive income (loss)	**(200,897)**	279,060
Balance at end of the year	**131,745**	332,642
Defined-benefit-plan liabilities		
Balance at beginning of the year	**(1,776)**	(64,917)
Other comprehensive income (loss)	**(14,517)**	63,141
Balance at end of the year	**(16,293)**	(1,776)
Accumulated other comprehensive income (loss)	**113,515**	328,458
Equity	**$ 4,074,923**	$ 4,081,109

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

(1) This amount relates to the change in Class B shares during the period.

Consolidated Statement of Cash Flows

For the year ended March 31 *($ in thousands)*	**2021**	2020
Cash flows from operating activities		
Net income	**$ 210,525**	$ 101,908
Adjustments for non-cash items and other items		
Provision for loan losses	**271,085**	385,980
Depreciation and amortization	**130,784**	124,764
Net loss (gains) on securities	**(6,475)**	(11,353)
Adjustments for net changes in operating assets and liabilities		
Loans	**2,195,423**	(381,594)
Deposits	**2,385,946**	(548,234)
Derivative financial instruments	**88,490**	(132,220)
Prepayments and other receivables	**(55,039)**	(29,649)
Accounts receivable – financial market products	**(122,326)**	(146,748)
Due to clients, brokers, and dealers	**(9,135)**	42,938
Deposit guarantee fee payable	**3,497**	1,314
Accounts payable and accrued liabilities	**(667,663)**	939,923
Accounts payable – financial market products	**136,050**	(131,187)
Liability for payment in lieu of tax and income taxes	**32,038**	(10,771)
Net interest receivable and payable	**(42,902)**	(38,305)
Change in accrued-pension-benefit liability	**954**	17,398
Other	**2,124**	(7,093)
Net cash provided by (used in) operating activities	**4,553,376**	177,071
Cash flows from investing activities		
Change in securities	**1,002,560**	(656,378)
Change in securities purchased under reverse repurchase agreements	**-**	400,355
Change in interest-bearing deposits with financial institutions	**(288,443)**	996,279
Purchases and disposals of property and equipment, software, and other intangibles	**(63,940)**	(124,085)
Net cash provided by (used in) investing activities	**650,177**	616,171
Cash flows from financing activities		
Issuance of wholesale borrowings	**8,927,987**	9,361,649
Repayment of wholesale borrowings	**(9,812,290)**	(8,595,291)
Issuance of collateralized borrowings	**974,513**	691,383
Repayment of collateralized borrowings	**(1,588,523)**	(1,112,119)
Change in securities sold under repurchase agreements	**(336,098)**	350,827
Repayment of lease liabilities	**(38,083)**	(38,008)
Issuance of subordinated debentures	**30,845**	41,612
Repayment of subordinated debentures	**(30,845)**	(380,752)
Net cash provided by (used in) financing activities	**(1,872,494)**	319,301
Net increase (decrease) in cash	**3,331,059**	1,112,543
Cash at beginning of the year	**1,312,544**	200,002
Cash at end of the year	**$ 4,643,603**	$ 1,312,545
Net cash (used in) provided by operating activities includes:		
Interest paid	**$ (667,898)**	$ (908,864)
Interest received	**1,800,472**	2,064,749

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

1 Nature of Operations

ATB is an Alberta-based financial services provider engaged in retail and commercial banking, credit cards, digital banking and wealth-management, investment management, and capital-markets services. ATB is an agent of the Crown in right of Alberta and operates under the authority of the *ATB Financial 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 its Board of Directors appointed by the LGIC. Under APAGA, ATB is recognized as a government commercial enterprise and remains operationally independent from the provincial government. The address of the head office is 2100, 10020-100 Street, Edmonton, Alberta, Canada, T5J 0N3.

ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the GoA designed to be in lieu of such charges. (See Notes 2[l] and 20.)

2 Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the ASFI. These consolidated financial statements were approved by the Board of Directors on May 20, 2021.

The consolidated financial statements have been prepared on a historical cost basis, except for securities measured at fair value through profit or loss (FVTPL) or other comprehensive income (FVOCI), derivative financial instruments, financial assets and liabilities designated at FVTPL, equity instruments designated at FVOCI, and liabilities for cash-settled, share-based payments, which have been measured at fair value.

The consolidated financial statements are presented in Canadian dollars, and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

Consolidation – Subsidiaries

Subsidiaries are entities controlled by ATB. Control exists when ATB is exposed to or has rights to variable returns from its involvement with the entity and can affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control starts until the date it ends. 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 offering investor services, were established by OC and incorporated under the *Business Corporations Act* (Alberta):

- ATB Investment Management Inc., incorporated August 21, 2002;
- ATB Securities Inc., incorporated February 6, 2003; and
- ATB Insurance Advisors Inc., incorporated July 21, 2006.

The following wholly owned subsidiaries, created for offering advisory and institutional financial services, were incorporated under the *Business Corporations Act* (Alberta):

- ATB Capital Markets Inc. (previously known as AltaCorp Capital Inc. [AltaCorp]), incorporated May 17, 2010;
- AltaCorp Capital (USA) Inc., incorporated June 21, 2010;
- ATB Private Equity GP Inc. (previously known as AltaCorp Asset Management Inc.), incorporated February 24, 2012; and
- ATB Private Equity, LP, registered March 23, 2020.

A series of consolidated structured entities were incorporated on November 19, 2020, under the *Business Corporations Act* (Alberta). There was no activity in these entities as of March 31, 2021, resulting in no impact on the consolidated statements of financial position, income, or cash flow.

Significant Accounting Judgments, Estimates, and Assumptions

While applying ATB's accounting policies, management has exercised judgment and made estimates in determining amounts recognized in the consolidated financial statements. The most significant judgments and estimates include the allowance for loan losses, the fair value of financial instruments, income taxes and deferred taxes, the depreciation of premises and equipment, the amortization of software, the carrying value of goodwill, and the 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, 2021, provide additional information in the following notes:

2(b): Impairment of financial assets – for establishing the allowance for loan losses;
2(b): Financial instruments – for establishing the fair value;
7: Securities – for establishing the fair value of investments made by ATB and subsidiaries in a broad range of mainly private Alberta companies;
11: Property and equipment – for establishing the depreciation expense for premises and equipment;
12: Software and other intangibles – for establishing the amortization expense for software and the carrying value of goodwill; and
19: Employee benefits – for establishing the assumptions used.

COVID-19

The COVID-19 pandemic has caused and will continue to cause significant volatility that will impact our financial results, as the duration of the pandemic and the effectiveness of actions taken by ourselves, the government, and the Bank of Canada are uncertain.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the exchange rate in effect at the date of the transaction. Realized and unrealized gains and losses arising from these translations are included in foreign exchange in the consolidated statement of income.

b. Financial Instruments

Classification and Measurement of Financial Assets

To determine the classification and measurement category of financial assets, IFRS 9 *Financial Instruments* requires all financial assets except equity instruments and derivatives to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash-flow characteristics. The categories under IFRS 9 are:

- Debt instruments at amortized cost;
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition; and
- FVTPL.

Business Model Assessment

ATB determines its business model at a level that best reflects how the financial assets are managed. Judgment is used in determining ATB's business model, which is supported by observable relevant factors such as:

- How the asset and performance are evaluated and reported to key management personnel;
- The risks that affect the asset's performance and how they are managed; and
- The expected frequency, value, and timing of sales.

ATB's business models fall into three categories, which are indicative of the key strategies used:

- Hold to collect (HTC): In the HTC model, financial assets are held to collect the contractual principal and interest cash flows. Sales may occur, but they are incidental and expected to be insignificant or infrequent.
- Hold to collect and sell (HTC&S): Both collecting contractual cash flows and sales are integral to achieving this business model's objective.
- Other fair-value business models: Neither HTC nor HTC&S, other fair-value business models represent business objectives where assets are managed on a fair-value basis.

The following table presents the business model for ATB's financial assets:

Financial asset	Business model
Cash	Hold to collect
Interest-bearing deposits with financial institutions	Other fair-value business models
Securities measured at fair value through profit or loss	Other fair-value business models
Securities measured at fair value through other comprehensive income	Hold to collect and sell
Securities purchased under reverse repurchase agreements	Hold to collect
Loans	Hold to collect
Derivatives	Other fair-value business models
Other assets	Hold to collect

Financial Assets Measured at Amortized Cost

Financial assets are measured at amortized cost if they are held within an HTC business model and their contractual cash flows pass the solely payments of principal and interest (SPPI) test. The assets are initially recognized at fair value—which is the cash consideration to originate or purchase the asset, including any transaction costs and up-front fees—and subsequently measured at amortized cost using the effective interest rate (EIR) method. Financial assets measured at amortized cost are reported in the consolidated statement of financial position as loans or securities purchased under reverse repurchase agreements. Interest is included in the consolidated statement of income as part of NII. For loans, ECLs are reported in the consolidated statement of financial position as an allowance for loan losses that reduces the loan's carrying value and are recognized in the consolidated statement of income as a provision for loan losses (LLP).

The Solely Payments of Principal and Interest Test

ATB assesses the contractual terms of the financial asset to determine if the contractual cash flows represent a basic lending agreement, where the cash flows comprise SPPI. Principal is defined as the fair value of the asset at initial recognition, and it may change over the asset's life due to repayments or amortization of premiums and discounts. Interest payments primarily include compensation for credit risk and the time value of money, as well as liquidity risks and servicing or administrative costs.

The contractual terms of a financial asset may also include contractual cash flows that are not related to a basic lending agreement. Where contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending agreement, the related financial asset is classified and measured at FVTPL.

Fair Value through Other Comprehensive Income

Financial assets with an HTC&S business model where contractual cash flows meet the SPPI test are measured at FVOCI. Financial assets at FVOCI are subsequently measured at fair value, with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign-exchange gains and losses are included in the consolidated statement of income in NII and foreign-exchange revenue in OI, respectively.

Fair Value through Profit or Loss

Financial assets in this category are not held for trading and are either irrevocably designated by management upon initial recognition or mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition on an instrument-by-instrument basis when the designation eliminates or significantly reduces the inconsistent treatment that would result from measuring the assets or recognizing gains or losses differently.

Financial assets at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded to OI as foreign exchange, net gains on derivative financial instruments, or net gains on securities in the consolidated statement of income. Interest earned from instruments designated at FVTPL is accrued in interest income using the EIR, taking into account any discount/premium and qualifying transaction costs as being an integral part of the instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded to OI in the consolidated statement of income as sundry income when the right to the payment has been established.

Equity Instruments

Upon initial recognition, ATB occasionally elects to irrevocably classify on an instrument-by-instrument basis some of its equity investments at FVOCI when they are not held for trading.

Gains and losses on these equity instruments are never transferred to the consolidated statement of income. Dividends are recognized as sundry income when the right of the payment has been established, except when the proceeds are a partial recovery of the instrument's cost. If so, the proceeds are instead recorded in OCI. Equity instruments at FVOCI are not assessed for impairment.

If the instrument is measured at FVTPL, fair-value changes are recorded as part of net gains on securities in OI in the consolidated statement of income.

Classification of Financial Liabilities

Financial liabilities are classified and measured either at FVTPL or amortized cost.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities in this category are those not held for trading and either designated by management upon initial recognition or mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition, instrument by instrument, when one of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would result from measuring the liabilities or recognizing gains or losses differently; or
- The liabilities are part of a group of financial liabilities managed and their performance evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy.

Financial liabilities at FVTPL are recorded at fair value in the consolidated statement of financial position. Changes in fair value are recorded in the consolidated statement of income in OI as foreign exchange, net gains on derivative financial instruments, or net gains on securities except for movements in fair value of liabilities designated at FVTPL if there were changes in ATB's own credit risk. Such changes in fair value are recorded in the credit reserve through OCI and do not get transferred to profit or loss. Interest incurred on instruments designated at FVTPL is accrued in interest expense using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument. ATB classifies certain wholesale borrowings at FVTPL.

Financial Liabilities Measured at Amortized Cost

Financial liabilities not classified as FVTPL are measured at amortized cost and reported on the consolidated statement of financial position. They include deposits, wholesale borrowings, collateralized borrowings, and other liabilities. Interest expense is recognized using the EIR method and included in the consolidated statement of income as part of NIE.

Reclassification of Financial Assets and Liabilities

ATB has not reclassified any of its financial assets and would only do so if a significant change were to occur subsequent to initial recognition. Financial liabilities are never reclassified.

Impairment of Financial Assets

IFRS 9 incorporates a forward-looking ECL approach. ATB records an allowance for loan losses for all loans and financial assets not held at FVTPL, which includes loan commitments and financial guarantee contracts. Equity investments are not subject to impairment under IFRS 9.

For financial assets measured at FVOCI, the calculated ECL is recognized as an allowance in OCI as an accumulated impairment amount with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is transferred to OI as net gains on securities when the asset is derecognized.

For loans carried at amortized cost, impairment losses are recognized at each reporting date as an allowance for loan loss on the consolidated statement of financial position and an LLP on the consolidated statement of income. Allowances associated with undrawn amounts are presented under other liabilities on the consolidated statement of position and disclosed in Note 8. Losses are based on the three-stage impairment model outlined below.

ATB assesses at each reporting date whether an asset has experienced a significant increase in credit risk since initial recognition. Assets are grouped into Stage 1, Stage 2, or Stage 3, described as follows:

- Stage 1: When the asset is recognized, an allowance is recorded based on the 12-month ECL, which represents a portion of the lifetime ECL expected within 12 months of the reporting date. An asset will remain in Stage 1 until it has experienced a significant increase in credit risk since origination. Stage 1 also includes assets previously classified as Stage 2 if the credit risk has improved.
- Stage 2: When an asset has experienced a significant increase in credit risk since origination, an allowance is recognized for the lifetime ECL. Stage 2 also includes assets previously classified as Stage 3 if the asset is no longer credit impaired.
- Stage 3: Assets are considered credit impaired, with an allowance recognized equal to the discounted contractual cash shortfall expected over the remaining lifetime. Interest for assets in this stage is calculated based on the net loan balance.

Assessing for significant increases in credit risk is done at least quarterly based on the following three factors. Should any of these indicate a significant increase in credit risk, the loan is moved from Stage 1 to Stage 2:

- Thresholds established are based on both a percentage and absolute change in lifetime probabilities of default relative to initial recognition.
- Loans 30 days past due are typically considered to have experienced a significant increase in credit risk, except, all else being equal, for payment deferrals granted under ATB's relief programs.
- All non-retail loans with a borrower risk rating (BRR) between 10 and 13 are generally considered high risk, as described in Note 8.

Both the lifetime and 12-month ECLs are calculated either individually or collectively. If the credit quality improves in subsequent periods to the point where a significant increase in credit risk no longer exists, the ECLs are measured at the 12-month ECL as the loan is moved back to Stage 1 from Stage 2.

Measurement of Expected Credit Losses

ECL calculations use a complex model that is reviewed and updated when necessary. The calculation methods for each stage are summarized as follows:

- Stage 1: ATB estimates an asset's projected probability of default (PD), exposure at default (EAD), and loss given default (LGD) over a maximum of 12 months following the reporting date and discounts the ECLs by the asset's EIR.
- Stage 2: ATB estimates an asset's projected PD, EAD, and LGD over the remaining lifetime of the original asset and discounts the ECLs by the asset's original EIR.
- Stage 3: For credit-impaired assets, ATB recognizes the cumulative changes in lifetime ECLs since initial recognition. The calculation is similar to Stage 2 assets, with the PD set at 100%.

Forward-Looking Information

To measure the expected cash shortfalls, the model is based on three probability-weighted scenarios (pessimistic, baseline, and optimistic) designed to capture a wide range of possible outcomes associated with different PDs, EADs, and LGDs and probability of occurrence. The probability and scenarios are adjusted quarterly based on forecasted future economic conditions. The scenarios are subject to review and challenged by the established Economic Outlook Committee composed of members from the economics, risk management, treasury, finance, capital, customer insights, foreign-exchange, and energy areas.

In the model, ATB relies on a broad range of forward-looking economic information. The inputs vary based on the asset and include:

- Unemployment rate;
- Housing starts;
- Interest rate;
- Oil prices; and
- Foreign-exchange rate.

As the inputs may not capture all factors at the date of the financial statements, qualitative adjustments may be applied when these differences are considered material.

Expected Life

For loans in Stages 2 and 3, allowances are based on the ECLs over the loan's expected remaining lifetime. For most loans, the life is based on the remaining contractual life.

Exceptions can apply if:

- The loan includes both a loan and an undrawn commitment component;
- The loan agreement includes the contractual ability to demand repayment and cancel the undrawn commitment; and
- Credit loss exposure exceeds the contractual notice period.

Loans with these characteristics are exposed to credit losses exceeding the remaining contractual life and are not mitigated by ATB's normal credit-risk-management practices. The estimated period is based on significant judgment using historical information for similar exposures and normal credit-risk-management actions that vary by product.

Significant Increase in Credit Risk

Stage 1 and Stage 2 movement relies on significant judgment to assess whether a loan's credit risk has significantly increased relative to the date the loan was initially recognized. For this assessment, an increase in credit risk is based on a loan's lifetime PD, segregated by product or segment and done at the instrument level.

Movement from Stage 2 back to Stage 1 is symmetrical to moving from Stage 1 to Stage 2. As a result, if a loan is no longer considered to have a significant increase in credit risk relative to its initial recognition, the loan moves back to Stage 1.

Financial assets with low credit risk are considered to have a low risk of default, as the borrower can still fulfill its contractual obligations even in stress scenarios. For these assets, ATB has assumed that the credit risk has not increased significantly since initial recognition. Securities measured at FVOCI, securities purchased under reverse repurchase agreements, and certain financial assets have been identified as having low credit risk.

Definition of Default

Loans are assessed at each reporting date to determine if one or more loss events have occurred. ATB's definition of default is consistent with our internal credit-risk-management practices and varies across products. ATB's loans are considered impaired when they are more than 90 days past due, unless there is a reasonable expectation of timely collection of principal and interest. Impairment may also occur earlier if there is objective evidence of a negative impact on the loan's estimated future cash flows.

Write-Offs

Financial assets are written off either partially or entirely only when there is no reasonable expectation of recovery or ATB has stopped pursuing the recovery. If the amount written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance and then applied against the gross carrying amount. Any subsequent recoveries are credited to the consolidated statement of income.

Modifications and Derecognitions

A modification occurs when a financial asset's original term, payment schedule, interest rate, and limit are renegotiated or modified, which results in a change to the loan's contractual cash flows.

A modification gain or loss is calculated by taking the net present value of the new contractual cash flows, discounted at the original EIR less the current carrying value. The asset will continue to be subject to the same assessments for significant increase in credit risk and stage migration prior to being modified.

When an asset is derecognized and re-recognized, the new loan will be recorded in Stage 1 unless the loan was credit impaired when renegotiated. When assessing for significant increases in credit risk, the date of initial recognition is based on the date the loan was modified.

Estimated Fair Value

The fair value of a financial instrument is the price that would be received in the sale of a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

When financial instruments are subsequently remeasured, quoted market prices in an active market provide the best evidence of fair value. When such prices are available, ATB uses them to measure financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's-length basis. The fair value of a financial asset traded in an active market generally reflects the bid price, and that of a financial liability traded in an active market generally reflects the ask price.

If the market for a financial instrument is not active, ATB establishes fair value using a valuation technique that primarily makes use of observable market inputs. Such valuation techniques include the use of available information concerning recent market transactions, reference to the current fair value of a comparable financial instrument, discounted cash-flow analysis, option pricing models, and all other valuation techniques commonly used by market participants that provide reliable estimates.

In cases where the fair value is established using valuation models, ATB makes assumptions about the amount, the timing of estimated future cash flows, and the discount rates used. These assumptions are based primarily on observable market inputs such as interest rate yield curves, foreign-exchange rates, credit curves, and price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is established primarily on the basis of internal estimates and data, considering the valuation policies in effect at ATB, the economic environment, the specific characteristics of the financial asset or liability, and other relevant factors. For investments made by ATB and its subsidiaries in private Alberta companies where there is no observable market price, fair value is estimated using a combination of discounted cash flows and market multiples derived from quoted prices of comparative companies. (See Note 7.)

The fair values are estimated at the balance sheet date using the following valuation methods and assumptions.

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 credit valuation adjustments, current market and contractual prices for the underlying instruments, and time value and yield curve or volatility factors underlying the positions. The fair value of exchange-traded contracts is based on quoted market prices in an active market.

Hybrid instruments are contracts that contain an embedded derivative. If the contract is a financial asset in scope of the standard, IFRS 9's classification and measurement criteria are applied to the entire hybrid instrument. If the contract is either a financial liability or an asset not in scope of IFRS 9, the embedded derivative is separately recognized if the embedded derivative is not closely related to the contract, unless the fair-value option has been elected. The contract is then accounted for in accordance with its relevant accounting standard.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates reprice 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 and Collateralized Borrowings

The fair values of wholesale borrowings and collateralized borrowings are estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

Derecognition of Financial Assets and Liabilities

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 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 they expire. The difference between the carrying amount of a financial liability extinguished or transferred to another party and consideration paid is recognized as sundry income in the consolidated statement of income.

Securities Purchased under Reverse Repurchase Agreements and Securities Sold under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by ATB with a simultaneous agreement to sell them back at a specified price on a future date. The difference between the cost of the purchase and the predetermined proceeds to be received based on the repurchase agreement is recorded as securities interest income in the consolidated statement of income. Securities purchased under reverse repurchase agreements are fully collateralized, minimizing credit risk, and have been classified and measured at amortized cost.

Securities sold under repurchase agreements represent a sale of Government of Canada securities by ATB with a simultaneous agreement to buy them back at a specified price on a future date. The difference between the proceeds of the sale and the predetermined cost to be paid based on the repurchase agreement is recorded as deposit interest expense in the consolidated statement of income.

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, futures, and foreign-exchange and commodity contracts. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB clients.

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-related exposures arising from its portfolio of investments, loan assets, deposit obligations, and wholesale borrowings.

ATB's client derivative portfolio is not used to generate trading income through active assumption of market risk, but rather to meet the risk management requirements of ATB clients. ATB accepts no net exposure to such derivative contracts (except for credit risk), as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk management programs.

Some derivative financial instruments, including embedded derivatives, are classified at FVTPL and measured at fair value in the consolidated statement of financial position. Derivatives with positive fair value are presented as derivative assets, and those with negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are recorded to OI as foreign exchange and net gains on derivatives in the consolidated statement of income unless the derivative is designated for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in OCI.

Hedge Accounting

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document, both at the inception of the hedging relationship and on an ongoing basis, an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item. When ATB designates a derivative as a hedge, it is classified as either a cash-flow or fair-value hedge. ATB has elected to continue applying the hedge accounting principles under International Accounting Standard (IAS) 39 instead of those under IFRS 9.

ATB discontinues hedge accounting when one of the following conditions occurs:
- It is determined that a derivative is not or has ceased to be highly effective as a hedge;
- The derivative expires or is sold, terminated, or exercised;
- The hedged item matures or is sold or repaid; 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 consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is immediately transferred to OI as net gains on derivatives 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 and cross-currency derivatives to manage risk relating to the variability of cash flows from certain loans, deposits, and securities. 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 OI as net gains on derivatives in the consolidated statement of income. Amounts are reclassified from OCI into NII in the consolidated statement of income in the same period that the underlying hedged item affects NII.

Fair-Value Hedge

Changes in fair value of derivatives that qualify and are designated as fair-value hedges are recorded to OI as foreign exchange in the consolidated statement of income, together with changes in the fair value of the hedged asset or liability attributable to the hedged risk. ATB uses cross-currency derivatives to manage our exposure to fair-value changes of certain fixed-interest-rate wholesale borrowings caused by interest and foreign-exchange-rate changes. 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 EIR method. If the hedged item is sold or repaid, the unamortized fair-value adjustment is recognized immediately in the consolidated statement of income.

Financial Guarantees

Liabilities under financial guarantee contracts are initially recorded at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligation.

Interest Income and Expenses

Interest income and expenses for all interest-bearing financial instruments are recognized in the consolidated statement of income using the EIR method. When calculating the EIR, ATB estimates cash flows by considering all contractual terms of the financial instrument (e.g., prepayment options). The calculation includes all fees integral to the EIR that are paid or received between parties to the contract, transaction costs, and all other premiums or discounts.

c. 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, consistent with the expected economic benefits obtained from the asset. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets, considering expected usage and expected physical wear and tear. 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. No depreciation is recorded 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;
- Right-of-use assets – up to 20 years, with renewals assessed case by case;
- Computer equipment – up to 4 years;
- Furniture and fixtures – up to 10 years;
- Other equipment – up to 5 years; and
- Leasehold improvements – lease term, plus one renewal period if reasonably assured, for branch properties; lease term for corporate properties, if applicable.

Depreciation rates, calculation methods, and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed to account for any change in circumstances. Gains and losses on the disposal of property and equipment are recorded to other expenses in the consolidated statement of income in the year of disposal.

d. Software, Goodwill, and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and amortized on a straight-line basis over their estimated useful lives, consistent with the expected economic benefits obtained from the asset. Goodwill refers to any sum paid above the fair value of the net identifiable assets obtained on the date the business is acquired. No amortization is recorded 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.

e. Impairment of Property and Equipment, Software, Goodwill, and Other Intangibles

The carrying amount of non-financial assets—which include property and equipment, software, goodwill, and other intangibles—are reviewed for impairment whenever events, changes in circumstances, or technical or commercial obsolescence indicates that the carrying amount may not be recoverable. Goodwill and software under development are tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level where there are separately identifiable cash inflows, or CGUs.

If there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of an asset's fair value less cost to sell, and its value in use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Impairment losses are recorded to other expenses in the consolidated statement of income.

Impairment losses may be reversed if the circumstances leading to impairment are no longer present and only to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if no impairment loss had been recognized. Impairment loss reversals are recorded to other expenses in the consolidated statement of income.

Goodwill is tested for impairment annually, or more frequently if there are objective indications of impairment, by comparing the recoverable amount of a CGU with its carrying amount. The recoverable amount of a CGU is the higher of (1) its fair value, less costs of disposal and (2) its value in use and is determined using a discounted cash-flow model that projects future cash flows based on forecasted revenue. The discount rate is based on an implied internal rate of return using a combination of working capital, cash flow growth, annual capital expenditures, and ATB's PILOT. Both estimates involve significant judgment when determining the inputs. If the carrying amount of a CGU exceeds its recoverable amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to other identifiable assets proportionately based on the carrying amount of each asset. Subsequent reversals of goodwill impairment are prohibited. No goodwill impairment was recorded for the year ended March 31, 2021, and at March 31, 2020.

f. Leases

IFRS 16 provides a single lessee accounting model, requiring all leases to be included in the consolidated statement of financial position.

The interest rate for lease liabilities has been calculated using the weighted-average approach. For leases entered before April 1, 2019, the weighted-average interest rate is 7.0%. For leases entered beginning April 1, 2019, the weighted-average interest rate is 2.0%. ATB did not hold any short-term or low-value asset leases as at March 31, 2021, or at March 31, 2020.

Lessee Accounting

Classification

ATB assesses at the start of a contract if the contract is or contains a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and a lease liability are recognized. The right-of-use asset is presented under property and equipment, and the lease liability is presented under other liabilities on the consolidated statement of financial position.

Measurement

Measuring the lease liability includes the following components:
- Fixed lease payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts ATB expects to pay for residual-value guarantees;
- The amount paid for a purchase option if ATB is reasonably certain it will exercise the option; and
- Penalties for terminating the lease if the term includes the option to terminate and is exercised.

The lease liability is measured at amortized cost using the EIR method and remeasured when:
- Future lease payments change due to an index or rate change;
- The amount ATB expects to collect for a residual-value guarantee changes; or
- The likelihood of exercising a purchase, extension, or termination option changes.

Remeasurements are recorded to the carrying amount of the right-of-use asset or to profit or loss if that carrying amount is zero.

Lease payments are discounted over the non-cancellable term using the interest rate implicit in the lease. However, if the interest rate cannot be readily determined, the incremental borrowing rate is used. For ATB, the incremental borrowing rate is based on our wholesale borrowing costs.

The right-of-use asset is initially measured to be equal to the right-of-use liability and is recorded under property and equipment. The assets are depreciated until the earlier of:

- The end of the useful life of the right-of-use asset or
- The lease term.

The straight-line method is applied, as it best reflects the expected pattern of consumption of the future economic benefits. In addition, right-of-use assets may be reduced by impairment losses, if any, or for certain remeasurements made to the lease liability.

If the contract does not contain a lease, no asset or liability is recorded on the consolidated statement of financial position. Instead, payments are recognized to NIE as equipment, including depreciation in the consolidated statement of income on a straight-line basis over the term of the contract.

Lessor Accounting

Classification

A lease is classified as a "finance lease" if it transfers substantially all risks and rewards related to the underlying asset. A lease is classified as "operating" if it does not transfer substantially all risks and rewards related to the underlying asset.

The classification is done at inception and is only reassessed if a lease modification occurs. Changes in estimates (e.g., of the economic life or residual value of the underlying asset) or changes in circumstances (e.g., by default by the lessee) do not change a lease's classification.

Measurement

A lessor recognizes a finance lease on its consolidated statement of financial position (presented as a receivable at an amount equal to the net investment in the lease). The lease receivable includes:

- Fixed payments (including in-substance fixed payments) less any lease incentives payable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts ATB expects to receive for residual-value guarantees;
- The amount received for a purchase option if the lessee is reasonably certain to exercise it; and
- Penalties for terminating the lease if the term includes the option to terminate and the lessee is expected to exercise the option.

Subleases

A sublease is a transaction where a lessee ("intermediate lessor") leases an underlying asset to a third party. The lease ("head lease") between the head lessor and lessee remains unchanged.

If a transaction fits this criteria, the sublease is classified as either a finance or operating lease based on the right-of-use asset arising from the head lease. However, if the recognition exemption is applied to the head lease, then the sublease shall be classified as an operating lease.

g. Salaries and Employee Benefits

ATB provides benefits to current and past employees through a combination of DB and defined-contribution (DC) plans.

Non-management employees currently 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. Where employees have annual contributions over the allowed maximum under the *Income Tax Act,* ATB provides the employees with an NSP in which excess amounts are allocated. This non-registered plan gives employees notional DC benefits that cannot be provided with the ATB Plan due to contribution limitations.

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 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.

Details of the salaries and benefits of ATB's key management personnel included in Note 18 are presented in the audited Compensation Summary table of this report relating to key management personnel compensation.

Accounting for Defined-Benefit Plans – Registered, Supplemental, and Other

The PSPP and the DB portion of the ATB Plan, SRP, and OPEB obligations provides employee benefits based on members' years of service and highest average salary. The net liability recognized in other liabilities in the consolidated statement of financial position in respect of DB pension plans is the present value of the DB obligation at the date of the consolidated statement of financial position less the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected-unit-credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses are recognized in OCI. Past-service costs are recognized immediately in salaries and employee benefits in the consolidated statement of 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 recorded in salaries and employee benefits in the consolidated statement of income.

Plan Valuations, Asset Allocation, and Funding

On March 31 each year, ATB measures its accrued-benefit obligations and the fair values of plan assets for accounting purposes for the PSPP, ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due. The most recent actuarial valuation of the DB provisions of the ATB Plan was performed on December 31, 2019. The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. (See Note 19.)

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 that 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
- Present obligations that have arisen from past events but are not recognized because settlements will not require an 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 (in Note 22) unless the probability of settlement is remote.

i. Securitization

To provide ATB with additional sources of liquidity, we periodically securitize and guarantee certain assets and RMLs through CMHC's CMB program or through third-party investors. Credit card receivables may also be secured by ATB. All of our securitization activities are recorded on our consolidated statement of financial position and carried at amortized cost, as the derecognition criteria is not met due to retaining substantially all risks and rewards of ownership. The risks associated with RMLs and credit card receivables are credit and interest rate risks, and prepayment risks also impact RMLs. ATB recognizes a liability for cash proceeds received from securitization. This liability is presented under collateralized borrowings in the consolidated statement of financial position.

j. Segmented Information

An AoE is a distinguishable component of ATB that provides products or services and is subject to risks and returns that are different from those of other AoEs. The SLT regularly reviews operating activity by AoE. All transactions between AoEs are conducted at arm's length, with intra-segment revenue and expenses being eliminated in SSUs. Income and expenses associated with each AoE are included in determining that AoE's performance.

k. Revenue Recognition

Fees and Commission Income

Investment Management

Investment management income includes revenue earned from trailer fees and mutual fund commissions, fund management, financial planning servicing, and account servicing fees. Except for certain one-time account fees and commissions that are recognized up front when the services are completed, revenues are deferred and recognized over time for management and advisory services provided evenly throughout the month—assuming that a significant reversal of revenue will likely not occur.

Most commission revenue for insurance services is recognized immediately; a portion is deferred and recorded as a contract liability in other liabilities in the consolidated statement of financial position. The liability is then recognized as revenue in future years as performance obligations are fulfilled by managing policyholder relationships.

Service Charges

Service charges generate revenue from offering services to clients. Transaction-based fees are recognized up front when the transaction occurs or the service is completed.

Card Fees

Revenue is generated from issuing Mastercards and Visa Debit cards, from merchant credit card terminals and associated services, and from interchange fees. All three types of fees are recognized up front when the transaction has taken place, except for certain recurring merchant fees that are recognized over time. Credit card reward program expenses are recorded as a reduction to card fee revenue, as the program is managed by a third party with ATB acting as an agent.

Credit Fees

Fees are earned on various services related to a client's loan, letters of credit and guarantees, syndication, and standby fees. When a fee is charged for a one-time service, revenue is recorded immediately. If the fee relates to an ongoing service, revenue is recorded over time. Fees associated with letters of credit and guarantees are deferred and recorded to revenue monthly over the term of the letter.

Insurance

This refers to revenue generated from insurance plans offered with loans. There are two fees: variable fees based on the plan's surplus, which are deferred and recognized over the loan, and commission earned from each successful referral made to Sun Life Financial Inc. by ATB, which is recognized up front when the transaction takes place.

Capital Markets Revenue

These fees are earned and recognized up front when an agent/underwriter distributing the securities of issuers completes the underwriting service.

Sundry

These fees include revenue generated from mergers and acquisitions (M&As) and Project Finance advisory services. M&A fees are deferred and recognized over the period of the engagement as the services are provided, and the remaining fees are recognized up front when the transactions and services provided are completed or certain milestones have been achieved. All other sundry revenue is recorded as earned.

Contract Assets and Liabilities

A contract asset is defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a client when that right is conditional on something other than the passage of time (e.g., the entity's future performance). This is similar to the concept of unbilled receivables.

A contract liability is defined as an entity's obligation to transfer goods or services to a client, for which the entity has received consideration (or the amount is due) from the client. This is similar to the concept of unearned revenue. (See Note 27.)

ATB had no material contract assets or liabilities as at March 31, 2021, and at March 31, 2020.

Remaining Performance Obligations

Remaining performance obligations are defined as unsatisfied or partially satisfied performance obligations that an entity has promised to transfer to a client, as stated in the contract.

ATB had no material remaining performance obligations longer than one year as at March 31, 2021, and at March 31, 2020.

l. Income Taxes

Prior to April 1, 2020, income earned by ATB Capital Markets Inc. was subject to income tax expense consisting of current and deferred taxes. Income earned in Canada beginning April 1, 2020, is recognized in other liabilities in the consolidated statement of income and is considered when determining ATB's PILOT. (See Notes 20 and 26.)

Current income tax was the expected tax payable or recoverable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or recoverable in respect of previous years.

Deferred income tax, which could have resulted from the carryforward of unused tax losses and credits, was the tax expected to be payable or recoverable on temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. It was measured using rates expected to be applied when they reversed.

m. Business Combinations

Business combinations are accounted for using the acquisition method, which involves recognizing the identifiable assets, including intangible assets not previously recognized by the acquiree, and liabilities, including contingent liabilities, for the acquired business. The assets and liabilities are measured at their fair value on the date of acquisition, and any transaction costs are recorded directly to other expenses in the consolidated statement of income. Goodwill is recorded as part of software and other intangibles on the consolidated statement of financial position if the acquisition cost exceeds the fair value of the identifiable net assets acquired. If the acquisition cost is less than the fair value of the net assets acquired, the fair value is remeasured and any remaining difference is recognized immediately to other expenses in the consolidated statement of income. Subsequent fair-value changes for contingent liabilities are recorded to other expenses on the consolidated statement of income.

The non-controlling interest (NCI) is measured either at its fair value or based on its proportionate share of the identifiable net assets at the acquisition date, with the measurement method applied transaction by transaction. As at March 31, 2021, and at March 31, 2020, ATB had no NCIs. (See Notes 26.)

3 Summary of Accounting Policy Changes

Change in Accounting Policies and Disclosures

Interest Rate Benchmark Reform Phase 1

In September 2019, the IASB issued amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7 *Financial Instruments: Disclosures*. The amendments provide relief to all existing hedging relationships that are directly affected by reforms made to all interbank offered rates (IBORs) and allow these relationships to continue instead of being terminated before transitioning to an alternative interest rate. In addition, specific disclosures relating to the reform and its impact on ATB's hedging relationships will be required.

During the first quarter of FY2021, ATB adopted the above amendments, which had no impact on our financial statements. ATB will cease to apply these amendments as IBOR-based cash flows transition to new risk-free rates or when the hedging relationships impacted by the amendment are discontinued.

Hedging Relationships Impacted by the Interest Rate Benchmark Reform

As at March 31, 2021, ATB has six hedging relationships that have been impacted by the interest rate benchmark reform.

The following table shows the notional amount of our hedging instruments that will expire after 2021 and result in hedge accounting being discontinued and redesignated. The notional amounts of our hedging instruments also approximate the extent of the risk exposure we manage through hedging relationships.

As at March 31, 2021 *($ in thousands)*	Notional amount
Interest rate swaps	
USD London interbank offered rate (LIBOR)	$ 308,244

Future Accounting Policy Changes

The following standards have been issued but are not yet effective on the date of issuance of ATB's consolidated financial statements. ATB is currently assessing the impact of the application of these standards and will adopt them when they become effective.

COVID-19-Related Rent Concessions (Amendments to IFRS 16 *Leases*)

In May 2020, the IASB issued *COVID-19-Related Rent Concessions (Amendments to IFRS 16)*, exempting lessees from determining whether a COVID-19-related rent concession granted until June 2021 is a lease modification. Lessees that apply the exemption must disclose that they've done so in their financial statements. The amendment was effective for periods beginning on or after June 30, 2020.

In February 2021, the IASB published an exposure draft entitled *COVID-19-Related Rent Concessions beyond 30 June 2021 (Proposed Amendment to IFRS 16)* to extend the amendment by a year to June 30, 2022. The amendments must be treated retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but prior-period figures do not need to be restated. ATB does not have COVID-19-related concessions; therefore, there is no impact to our financial statements.

Definition of Material (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

In October 2018, the IASB issued *Definition of Material (Amendments to IAS 8)*, amending the definition of material in IAS 8 and replacing past definitions to use when applying the standard. The new definition considers information as material "if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial statements make" based on a specific reporting entity's financial statements.

ATB assessed the impact of the new definition, which is effective for annual reporting periods beginning on or after January 1, 2020, and determined there is no impact on our financial presentation. Earlier application is permitted. The amendments to IAS 8 were adopted April 1, 2020, the start of ATB's 2021 fiscal year.

Interest Rate Benchmark IBOR Reform Phase 2

In August 2020, the IASB finalized amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts*, and IFRS 16 *Leases*. The amendments provide guidance to address instances, for issues that may affect financial reporting, where an existing interest rate benchmark is replaced with an alternative interest rate. The amendments address replacement issues associated with the modification of financial assets and financial liabilities, including lease liabilities, hedge accounting requirements, and IBOR-reform-related disclosures. In October 2020, the Accounting Standards Board (AcSB) approved the amendments.

ATB is currently assessing the impact of these amendments, which must be applied retroactively. However, they should not materially impact our financial statements. Restatement of prior periods is not required but may be applied only without the use of hindsight. Phase 2 would be effective for annual reporting periods beginning on or after January 1, 2021; for ATB, it's effective April 1, 2021, the start of ATB's FY2022.

Annual Improvements to IFRS Standards 2018–2020

In May 2020, the IASB issued *Annual Improvements to IFRS Standards 2018–2020*, amending a number of standards as part of its annual improvements. IFRS 9 *Financial Instruments* clarifies which fees are included when applying the "10% test" to assess whether a financial liability is derecognized. Under IFRS 16 *Leases*, an example for reimbursements made by the lessor for leasehold improvements has been removed. In September 2020, the AcSB endorsed the IASB's annual improvements.

ATB is currently assessing the impact of these improvements, which are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted. However, they should not impact our financial statements. The amendment to IFRS 16 relates to an illustrative example and therefore has no effective date. The amendments take effect April 1, 2022, the start of ATB's FY2023.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)

In May 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*, which clarifies that the cost of fulfilling a contract is included in determining whether a contract is onerous or not. The cost includes incremental and allocated costs that relate directly to fulfilling the contract.

ATB is currently assessing the impact of these amendments, which are effective for annual reporting periods beginning on or after January 1, 2022, and must be applied for all obligations not fulfilled at the beginning of the fiscal year in which the amendment is adopted. Earlier application is permitted. The amendments take effect April 1, 2022, the start of ATB's FY2023.

IFRS 17 *Insurance Contracts*

In May 2017, the IASB published a new standard, IFRS 17 *Insurance Contracts*, establishing the principles for the recognition, measurement, presentation, and disclosure of insurance contracts within the scope of the standard.

ATB assessed the impact of the new standard and determined there is no impact on our financial presentation. IFRS 17 will replace IFRS 4 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2021, and, for ATB, effective starting April 1, 2022, the beginning of ATB's 2023 fiscal year. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have also been applied. ATB has chosen to not adopt the standard early.

Proceeds before Intended Use (Amendments to IAS 16 *Property, Plant and Equipment*)

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*. The change prohibits deducting from the cost of property, plant, and equipment any proceeds from selling items produced while readying the assets for use. Instead, the cost of producing those items and the proceeds from selling them must be recognized immediately in profit or loss.

ATB is currently assessing the impact of these amendments, which are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted. However, they should not impact our financial statements. The amendments take effect April 1, 2022, the start of ATB's FY2023.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1 *Presentation of Financial Statements*)

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*, which amends the presentation of liabilities in the statement of financial position and not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

ATB assessed the impact of the new definition, which is effective for annual reporting periods beginning on or after January 1, 2023, and determined that there is no impact on our financial presentation. Earlier application is permitted. We will adopt the amendments to IAS 1 on April 1, 2023, the start of ATB's FY2024.

Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements*)

In February 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1)*, which is intended to disclose material accounting policies and distinguish these from significant accounting policies. The amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide guidance on how to apply a four-step materiality process to accounting policy disclosures.

ATB is currently assessing the impact of the amendment, which is effective for annual reporting periods beginning on or after January 1, 2023, and is applied prospectively, with earlier application permitted. The amendments to IAS 1 take effect April 1, 2023, the start of ATB's FY2024.

Definition of Accounting Estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

In February 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)* that updates the definition of accounting estimates and provides guidance to help entities distinguish changes in accounting estimates from changes in accounting policies.

ATB is currently assessing the impact of the amendment, which is effective for annual reporting periods beginning on or after January 1, 2023, and is applied prospectively, with earlier application permitted. The amendments to IAS 1 take effect April 1, 2023, the start of ATB's FY2024.

4 Financial Instruments

Classification and Carrying Value

The following tables summarize ATB's financial instrument classifications and provide their carrying value:

As at March 31, 2021 *($ in thousands)*	Financial instruments classified as at FVTPL	Financial instruments designated as at FVTPL	Financial instruments classified as at FVOCI	Financial instruments designated as at FVOCI	Financial instruments measured at amortized cost	Total carrying value
Financial assets						
Cash (1)	$ -	$ -	$ -	$ -	$ 4,643,603	$ 4,643,603
Interest-bearing deposits with financial institutions (1)	-	389,471	-	-	-	389,471
Total cash resources	-	389,471	-	-	4,643,603	5,033,074
Total securities (1)	56,070	36,023	3,519,592	14,922	-	3,626,607
Business loans	-	-	-	-	23,197,080	23,197,080
Residential mortgages	-	-	-	-	15,833,810	15,833,810
Personal loans	-	-	-	-	5,631,547	5,631,547
Credit card	-	-	-	-	660,652	660,652
Allowance for loan losses	-	-	-	-	(725,867)	(725,867)
Total loans (2)	-	-	-	-	44,597,222	44,597,222
Derivative financial instruments	1,181,796	-	-	-	-	1,181,796
Other assets	-	-	-	-	504,193	504,193
Total other assets (1)	1,181,796	-	-	-	504,193	1,685,989
Total financial assets	**$ 1,237,866**	**$ 425,494**	**$ 3,519,592**	**$ 14,922**	**$ 49,745,018**	**$ 54,942,892**
Financial liabilities						
Redeemable fixed-date deposits	$ -	$ -	$ -	$ -	$ 1,828,748	$ 1,828,748
Non-redeemable fixed-date deposits	-	-	-	-	6,014,076	6,014,076
Savings accounts	-	-	-	-	12,241,167	12,241,167
Transaction accounts	-	-	-	-	12,035,331	12,035,331
Notice accounts	-	-	-	-	5,639,066	5,639,066
Total deposits (3)	-	-	-	-	37,758,388	37,758,388
Securities sold under repurchase agreements (1)	-	-	-	-	14,730	14,730
Wholesale borrowings (4)	-	290,189	-	-	3,218,630	3,508,819
Collateralized borrowings (5)	-	-	-	-	7,931,082	7,931,082
Derivative financial instruments (1)	921,411	-	-	-	-	921,411
Other liabilities (1)	-	-	-	-	1,328,173	1,328,173
Total other liabilities	921,411	290,189	-	-	12,492,615	13,704,215
Total financial liabilities	**$ 921,411**	**$ 290,189**	**$ -**	**$ -**	**$ 50,251,003**	**$ 51,462,603**

(1) The fair value is estimated to equal carrying value.
(2) The fair value of loans is estimated at $46,187,190.
(3) The fair value of deposits is estimated at $37,644,667.
(4) The fair value of wholesale borrowings is estimated at $3,592,122.
(5) The fair value of collateralized borrowings is estimated at $8,170,998.

As at March 31, 2020 *($ in thousands)*	Financial instruments classified as at FVTPL	Financial instruments designated as at FVTPL	Financial instruments classified as at FVOCI	Financial instruments designated as at FVOCI	Financial instruments measured at amortized cost	Total carrying value
Financial assets						
Cash (1)	$ -	$ -	$ -	$ -	$ 1,312,544	$ 1,312,544
Interest-bearing deposits with financial institutions (1)	-	101,028	-	-	-	101,028
Total cash resources	-	101,028	-	-	1,312,544	1,413,572
Total securities (1)	45,302	-	4,576,143	10,081	-	4,631,526
Business loans	-	-	-	-	24,369,982	24,369,982
Residential mortgages	-	-	-	-	16,212,297	16,212,297
Personal loans	-	-	-	-	6,369,432	6,369,432
Credit card	-	-	-	-	729,712	729,712
Allowance for loan losses	-	-	-	-	(635,189)	(635,189)
Total loans (2)	-	-	-	-	47,046,234	47,046,234
Derivative financial instruments	1,539,634	-	-	-	-	1,539,634
Other assets	-	-	-	-	410,609	410,609
Total other assets (1)	1,539,634	-	-	-	410,609	1,950,243
Total financial assets	$ 1,584,936	$ 101,028	$ 4,576,143	$ 10,081	$ 48,769,387	$ 55,041,575
Financial liabilities						
Redeemable fixed-date deposits	$ -	$ -	$ -	$ -	$ 1,462,566	$ 1,462,566
Non-redeemable fixed-date deposits	-	-	-	-	8,527,652	8,527,652
Savings accounts	-	-	-	-	9,485,318	9,485,318
Transaction accounts	-	-	-	-	8,653,216	8,653,216
Notice accounts	-	-	-	-	7,244,615	7,244,615
Total deposits (3)	-	-	-	-	35,373,367	35,373,367
Securities sold under repurchase agreements (1)	-	-	-	-	350,828	350,828
Wholesale borrowings (4)	-	318,665	-	-	4,083,502	4,402,167
Collateralized borrowings (5)	-	-	-	-	8,545,092	8,545,092
Derivative financial instruments (1)	989,256	-	-	-	-	989,256
Other liabilities (1)	-	-	-	-	2,094,596	2,094,596
Total other liabilities	989,256	318,665	-	-	15,074,018	16,381,939
Total financial liabilities	$ 989,256	$ 318,665	$ -	$ -	$ 50,447,385	$ 51,755,306

(1) The fair value is estimated to equal carrying value.
(2) The fair value of loans is estimated at $48,942,323.
(3) The fair value of deposits is estimated at $35,479,325.
(4) The fair value of wholesale borrowings is estimated at $4,554,685.
(5) The fair value of collateralized borrowings is estimated at $8,855,759.

Fair-Value Hierarchy

Financial instruments recorded at fair value in the consolidated statement of financial position are classified using a fair-value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair-value hierarchy has the following levels:

- Level 1 – Fair value based on quoted prices in active markets;
- Level 2 – Fair value estimated using valuation techniques with market-observable inputs other than quoted market prices; and
- Level 3 – Fair value estimated using inputs not based on observable market data.

The fair-value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For the years ended March 31, 2021, and March 31, 2020, there were no transfers of financial instruments between Levels 1 and 2 or into and out of Level 3.

The categories of financial instruments whose fair values are classified as Level 3 consist of investments made by ATB and its subsidiaries in a broad range of private Alberta companies and funds. Valuation techniques are disclosed in Note 7.

The following tables present the level within the fair-value hierarchy of ATB's financial assets and liabilities measured at fair value:

As at March 31, 2021 *($ in thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Interest-bearing deposits with financial institutions	**$ -**	**$ 389,471**	**$ -**	**$ 389,471**
Securities				
Securities measured at FVTPL	**37,927**	**-**	**54,166**	**92,093**
Securities measured at FVOCI	**3,519,592**	**-**	**14,922**	**3,534,514**
Other assets				
Derivative financial instruments	**13,055**	**1,168,741**	**-**	**1,181,796**
Total financial assets	**$ 3,570,574**	**$ 1,558,212**	**$ 69,088**	**$ 5,197,874**
Financial liabilities				
Wholesale borrowings	**$ -**	**$ 290,189**	**$ -**	**$ 290,189**
Other liabilities				
Derivative financial instruments	**11,176**	**910,235**	**-**	**921,411**
Total financial liabilities	**$ 11,176**	**$ 1,200,424**	**$ -**	**$ 1,211,600**

As at March 31, 2020 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions	$ -	$ 101,028	$ -	$ 101,028
Securities				
Securities measured at FVTPL	9,190	-	36,112	45,302
Securities measured at FVOCI	4,576,143	-	10,081	4,586,224
Other assets				
Derivative financial instruments	33,757	1,505,877	-	1,539,634
Total financial assets	$ 4,619,090	$ 1,606,905	$ 46,193	$ 6,272,188
Financial liabilities				
Wholesale borrowings	$ -	$ 318,665	$ -	$ 318,665
Other liabilities				
Derivative financial instruments	29,495	959,761	-	989,256
Total financial liabilities	$ 29,495	$ 1,278,426	$ -	$ 1,307,921

ATB performs a sensitivity analysis for fair-value measurements classified as Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in Note 8 for the other securities designated at FVTPL.

The following tables present the changes in fair value of Level 3 financial instruments:

($ in thousands)	**Securities designated as at FVOCI**	**Securities classified as at FVTPL**
Fair value as at March 31, 2020	**$ 10,081**	**$ 36,112**
Total realized and unrealized losses included in net income	**-**	**(1,514)**
Total realized and unrealized gains included in other comprehensive income	**(611)**	**-**
Purchases and issuances	**5,452**	**19,568**
Sales and settlements	**-**	**-**
Fair value as at March 31, 2021	**$ 14,922**	**$ 54,166**
Change in unrealized loss included in income with respect to financial instruments held as at March 31, 2021	**$ -**	**$ (1,514)**

($ in thousands)	Securities designated as at FVOCI	Securities classified as at FVTPL
Fair value as at March 31, 2019	$ 1,628	$ 35,440
Total realized and unrealized losses included in net income	-	3,063
Total realized and unrealized gains included in other comprehensive income	(585)	-
Purchases and issuances	9,038	9,797
Sales and settlements	-	(12,188)
Fair value as at March 31, 2020	$ 10,081	$ 36,112
Change in unrealized loss included in income with respect to financial instruments held as at March 31, 2020	$ -	$ (1,112)

The consolidated statement of income line item for net gains on securities includes realized and unrealized fair-value movements on all financial instruments classified and designated at FVTPL and realized gains on securities measured at FVOCI.

Offsetting Financial Assets and Financial Liabilities

A financial asset or liability or securities purchased under reverse repurchase agreements or derivative assets and liabilities must be offset in the consolidated statement of financial position when and only when there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realize the asset and settle the liability simultaneously. A legally enforceable right exists when the right is enforceable both in the normal course of business and in the event of default, insolvency, or bankruptcy.

A financial asset or liability is not offset in the consolidated statement of financial position if it is subject to master netting arrangements (which include those by the International Swaps and Derivatives Association [ISDA]) or similar arrangements that only permit offsetting outstanding transactions with the same counterparty in the event of default, insolvency, or bankruptcy.

ATB receives and pledges collateral in the form of cash and marketable securities relating to its derivative assets and liabilities to manage credit risk in accordance with the terms and conditions of the ISDA credit support annex.

The following tables present information about financial assets and liabilities that are set off and not set off in the consolidated statement of financial position and are subject to a master netting agreement or similar arrangement:

				Related amounts not offset in the consolidated statement of financial position		
As at March 31, 2021 *($ in thousands)*	**Gross recognized amounts**	**Set-off amounts**	**Net amounts recognized in the consolidated statement of financial position**	**Financial instruments (1)**	**Financial collateral received/ pledged**	**Net amount**
Financial assets						
Derivative financial instruments	**$ 1,181,796**	**$ -**	**$ 1,181,796**	**$ 557,471**	**$ 97,515**	**$ 526,810**
Amounts receivable from clients and financial institutions	**393,295**	**-**	**393,295**	**270,045**	**-**	**123,250**
Total financial assets	**$ 1,575,091**	**$ -**	**$ 1,575,091**	**$ 827,516**	**$ 97,515**	**$ 650,060**
Financial liabilities						
Securities sold under reverse repurchase agreements	**$ 14,730**	**$ -**	**$ 14,730**	**$ -**	**$ -**	**$ 14,730**
Derivative financial instruments	**921,411**	**-**	**921,411**	**557,471**	**123,198**	**240,742**
Amounts payable to clients and financial institutions	**392,341**	**-**	**392,341**	**270,045**	**-**	**122,296**
Total financial liabilities	**$ 1,328,482**	**$ -**	**$ 1,328,482**	**$ 827,516**	**$ 123,198**	**$ 377,768**

(1) This is the carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar arrangement but that do not meet the offsetting criteria.

				Related amounts not offset in the consolidated statement of financial position		
As at March 31, 2020 *($ in thousands)*	Gross recognized amounts	Set-off amounts	Net amounts recognized in the consolidated statement of financial position	Financial instruments (1)	Financial collateral received/ pledged	Net amount
Financial assets						
Derivative financial instruments	$ 1,539,634	$ -	$ 1,539,634	$ 575,980	$ 636,524	$ 327,130
Amounts receivable from clients and financial institutions	307,617	-	307,617	208,592	-	99,025
Total financial assets	$ 1,847,251	$ -	$ 1,847,251	$ 784,572	$ 636,524	$ 426,155
Financial liabilities						
Securities sold under reverse repurchase agreements	$ 350,828	$ -	$ 350,828	$ -	$ -	$ 350,828
Derivative financial instruments	989,256	-	989,256	575,980	44,390	368,886
Amounts payable to clients and financial institutions	304,894	-	304,894	208,592	-	96,302
Total financial liabilities	$ 1,644,978	$ -	$ 1,644,978	$ 784,572	$ 44,390	$ 816,016

(1) This is the carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar arrangement but do not meet the offsetting criteria.

5 Financial Instruments – Risk Management

ATB has included in the Risk Management section of the MD&A certain disclosures required by IFRS 7 relating to credit, market, foreign-exchange, and liquidity risks. These risks are an integral part of the 2021 consolidated financial statements.

6 Cash Resources

Cash consists of cash on hand, bank notes and coins, non-interest-bearing deposits, and cash held at the Bank of Canada through the LVTS. Interest-bearing deposits with financial institutions have been designated at FVTPL and are recorded at fair value. Interest income on interest-bearing deposits with financial institutions is recorded on an accrual basis. Cash has been classified as financial instruments measured at amortized cost, as disclosed in Note 4.

As at March 31, 2021, the carrying value of interest-bearing deposits with financial institutions consists of $389.5 million (2020: $101.0 million) designated at FVTPL.

ATB has restricted cash that represents deposits held in trust in connection with securitization activities. These deposits include cash accounts that hold principal and interest payments collected from mortgages securitized through the *National Housing Act* Mortgage-Backed Security (MBS) Program. The deposits are awaiting payment to their respective investors and held in interest reinvestment accounts in connection with ATB's participation in the CMB program. As at March 31, 2021, the amount of restricted cash is $300.4 million (2020: $226.0 million).

7 Securities

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

As at March 31, 2021 *($ in thousands)*	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total carrying value**
Securities measured at FVTPL				
Issued or guaranteed by the federal or provincial government	**$ 36,023**	**$ -**	**$ -**	**$ 36,023**
Other securities	**390**	**42,184**	**13,496**	**56,070**
Total securities measured at FVTPL	**$ 36,413**	**$ 42,184**	**$ 13,496**	**$ 92,093**
Securities measured at FVOCI				
Issued or guaranteed by the federal or provincial government	**$ 1,107,460**	**$ 2,412,132**	**$ -**	**$ 3,519,592**
Other securities	**-**	**-**	**14,922**	**14,922**
Total securities measured at FVOCI	**$ 1,107,460**	**$ 2,412,132**	**$ 14,922**	**$ 3,534,514**

As at March 31, 2020 *($ in thousands)*	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
Securities measured at FVTPL				
Issued or guaranteed by the federal or provincial government	$ 9,027	$ -	$ -	$ 9,027
Other securities	140	29,981	6,154	36,275
Total securities measured at FVTPL	$ 9,167	$ 29,981	$ 6,154	$ 45,302
Securities measured at FVOCI				
Issued or guaranteed by the federal or provincial government	$ 3,223,635	$ 1,352,508	$ -	$ 4,576,143
Other securities	-	-	10,081	10,081
Total securities measured at FVOCI	$ 3,223,635	$ 1,352,508	$ 10,081	$ 4,586,224

Other Securities

These securities in the current year relate to investments made by ATB and its subsidiaries in a broad range of mainly private Alberta companies and funds. There is no observable market price for the investments made in these private Alberta companies as at the balance sheet date. ATB estimated the fair value using a combination of discounted cash flows and market multiples derived from quoted prices of comparative companies, specifically the expected earnings before interest, income tax, depreciation, and amortization (EBITDA). The key assumptions in this model are noted below:

			March 31 2021		March 31 2020	
			Range of input values		Range of input values	
Product	Valuation technique	Significant unobservable inputs	Low	High	Low	High
Equity	Valuation multiple	Enterprise value / EBITDA multiple	**3.81**	**10.28**	3.60	10.00
		Enterprise value / revenue multiple	**6.17**	**6.17**	-	-

A 10% change to each multiple would result in a $6.5 million increase and $5.3 million decrease in fair value (2020: $0.7 million; note that 2020 used a different valuation technique, so it is not exactly comparable to this year's result). The estimate is also adjusted for the effect of the non-marketability of these investments.

8 Loans

In the retail portfolio, each borrower is assessed based on its Fair Isaac Corporation (FICO) score. The following table outlines the borrower-risk-assessment level assigned to each FICO score range:

Risk assessment	FICO score range
Very low risk	800 to 900
Low risk	700 to 799
Medium risk	620 to 699
High risk	619 or lower

For non-retail loans, each borrower is assigned a BRR. The following table outlines the borrower-risk-assessment level assigned to each range:

Risk assessment	BRR range
Very low risk	1 to 4
Low risk	5 to 7
Medium risk	8 to 9
High risk	10 to 13

Credit Quality

The following table presents the gross carrying amount of loans and the full contractual amount of undrawn loan commitments subject to the impairment requirements under IFRS 9:

As at *($ in thousands)*				**March 31 2021**				March 31 2020
	Performing		**Impaired**		Performing		Impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Very low risk	**$ 3,612,447**	**$ 271,146**	**$ -**	**$ 3,883,593**	$ 3,336,305	$ 786,025	$ -	$ 4,122,330
Low risk	**12,288,476**	**1,026,331**	**-**	**13,314,807**	7,470,953	6,951,518	-	14,422,471
Medium risk	**3,955,165**	**404,824**	**-**	**4,359,989**	2,445,622	1,977,782	-	4,423,404
High risk	**-**	**779,782**	**-**	**779,782**	611	431,582	-	432,193
Not rated (1)	**39,811**	**550**	**-**	**40,361**	27,190	5,145	-	32,335
Impaired	**-**	**-**	**818,548**	**818,548**	-	-	937,249	937,249
Total business	**19,895,899**	**2,482,633**	**818,548**	**23,197,080**	13,280,681	10,152,052	937,249	24,369,982
Very low risk	**7,212,459**	**115,142**	**-**	**7,327,601**	6,711,002	7,709	-	6,718,711
Low risk	**4,593,117**	**847,397**	**-**	**5,440,514**	4,818,879	859,244	-	5,678,123
Medium risk	**1,299,111**	**1,050,768**	**-**	**2,349,879**	1,577,366	1,112,308	-	2,689,674
High risk	**204,242**	**408,148**	**-**	**612,390**	273,116	733,869	-	1,006,985
Not rated (1)	**6,985**	**7,481**	**-**	**14,466**	10,287	4,272	-	14,559
Impaired	**-**	**-**	**88,960**	**88,960**	-	-	104,245	104,245
Total residential mortgages	**13,315,914**	**2,428,936**	**88,960**	**15,833,810**	13,390,650	2,717,402	104,245	16,212,297
Very low risk	**2,522,359**	**25,348**	**-**	**2,547,707**	2,544,666	7,987	-	2,552,653
Low risk	**1,356,544**	**551,758**	**-**	**1,908,302**	1,655,631	530,452	-	2,186,083
Medium risk	**454,485**	**412,057**	**-**	**866,542**	705,639	412,800	-	1,118,439
High risk	**72,639**	**167,447**	**-**	**240,086**	137,184	283,022	-	420,206
Not rated (1)	**6,660**	**16,373**	**-**	**23,033**	17,621	7,167	-	24,788
Impaired	**-**	**-**	**45,877**	**45,877**	-	-	67,263	67,263
Total personal	**4,412,687**	**1,172,983**	**45,877**	**5,631,547**	5,060,741	1,241,428	67,263	6,369,432
Very low risk	**92,741**	**3,905**	**-**	**96,646**	67,909	11,899	-	79,808
Low risk	**263,660**	**19,347**	**-**	**283,007**	195,386	66,612	-	261,998
Medium risk	**171,548**	**19,569**	**-**	**191,117**	155,396	50,083	-	205,479
High risk	**23,015**	**12,949**	**-**	**35,964**	36,516	62,341	-	98,857
Not rated (1)	**43,855**	**4,702**	**-**	**48,557**	15,120	61,539	-	76,659
Impaired	**-**	**-**	**5,361**	**5,361**	-	-	6,911	6,911
Total credit card	**594,819**	**60,472**	**5,361**	**660,652**	470,327	252,474	6,911	729,712
Total loans	**38,219,319**	**6,145,024**	**958,746**	**45,323,089**	32,202,399	14,363,356	1,115,668	47,681,423
Total allowance for loan losses	**(126,822)**	**(251,399)**	**(347,646)**	**(725,867)**	(88,735)	(162,652)	(383,802)	(635,189)
Total net loans	**$ 38,092,497**	**$ 5,893,625**	**$ 611,100**	**$ 44,597,222**	$ 32,113,664	$ 14,200,704	$ 731,866	$ 47,046,234

As at ($ in thousands)				March 31 2021				March 31 2020
	Performing		Impaired		Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Very low risk	**$ 4,578,085**	**$ 11,785**	**$ -**	**$ 4,589,870**	$ 4,224,656	$ 7,839	$ -	$ 4,232,495
Low risk	**882,632**	**208,072**	**-**	**1,090,704**	719,723	291,104	-	1,010,827
Medium risk	**100,269**	**51,847**	**-**	**152,116**	94,513	56,042	-	150,555
High risk	**9,362**	**10,386**	**-**	**19,748**	10,555	25,994	-	36,549
Not rated (1)	**8,532**	**7,471**	**-**	**16,003**	6,707	9,156	-	15,863
Total undrawn loan commitments – retail	**5,578,880**	**289,561**	**-**	**5,868,441**	5,056,154	390,135	-	5,446,289
Total allowance for loan losses (2)	**(11,460)**	**(3,061)**	**-**	**(14,521)**	(8,613)	(3,590)	-	(12,203)
Total net undrawn	**$ 5,567,420**	**$ 286,500**	**$ -**	**$ 5,853,920**	$ 5,047,541	$ 386,545	$ -	$ 5,434,086
Very low risk	**$ 5,223,651**	**$ 457,148**	**$ -**	**$ 5,680,799**	$ 3,484,632	$ 333,879	$ -	$ 3,818,511
Low risk	**5,946,434**	**579,491**	**-**	**6,525,925**	3,461,944	2,468,023	-	5,929,967
Medium risk	**1,043,995**	**123,480**	**-**	**1,167,475**	467,592	494,239	-	961,831
High risk	**1,360**	**135,180**	**-**	**136,540**	30	151,807	-	151,837
Not rated (1)	**150,598**	**5,428**	**-**	**156,026**	119,493	154,081	-	273,574
Total undrawn loan commitments – non-retail	**12,366,038**	**1,300,727**	**-**	**13,666,765**	7,533,691	3,602,029	-	11,135,720
Total allowance for loan losses (2)	**(14,795)**	**(15,574)**	**-**	**(30,369)**	(11,479)	(40,384)	-	(51,863)
Total net undrawn	**$ 12,351,243**	**$ 1,285,153**	**$ -**	**$ 13,636,396**	$ 7,522,212	$ 3,561,645	$ -	$ 11,083,857

(1) Loans where the client-account-level risk rating has not been determined have been included in the "not rated" category.
(2) The allowance is presented under other liabilities in the consolidated statement of financial position.

The total net carrying value of the above loans includes those denominated in U.S. funds, totalling $1.3 billion as at March 31, 2021 (2020: $1.1 billion). As at March 31, 2021, the amount of foreclosed assets held for resale is $28.3 million (2020: $33.0 million).

Loans Past Due

The following loans are past due but not impaired because they are less than 90 days past due or because it is otherwise reasonable to expect timely collection of principal and interest:

As at March 31, 2021 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card	Total	Percentage of total gross loans
Up to 1 month (1)	**$ 72,348**	**$ 74,022**	**$ 21,931**	**$ 22,716**	**$ 191,017**	**0.42%**
Over 1 month up to 2 months	**90,614**	**76,028**	**25,719**	**5,273**	**197,634**	**0.44%**
Over 2 months up to 3 months	**32,404**	**11,356**	**8,124**	**2,391**	**54,275**	**0.12%**
Over 3 months	**5,860**	**262**	**430**	**5,009**	**11,561**	**0.03%**
Total past due but not impaired	**$ 201,226**	**$ 161,668**	**$ 56,204**	**$ 35,389**	**$ 454,487**	**1.01%**

As at March 31, 2020 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card	Total	Percentage of total gross loans
Up to 1 month (1)	$ 95,250	$ 41,049	$ 54,729	$ 41,826	$ 232,854	0.49%
Over 1 month up to 2 months	89,787	143,962	66,418	10,534	310,701	0.65%
Over 2 months up to 3 months	31,086	59,812	19,146	5,337	115,381	0.24%
Over 3 months	1,673	14,259	1,120	7,955	25,007	0.05%
Total past due but not impaired	$ 217,796	$ 259,082	$ 141,413	$ 65,652	$ 683,943	1.43%

(1) Loans past due by one day do not represent the borrowers' ability to meet their payment obligations and therefore are not administratively considered past due nor disclosed.

9 Allowance for Loan Losses

ATB records an allowance for losses for all loans by incorporating a forward-looking ECLs approach, as required under IFRS 9. This process involves inputs and assumptions requiring a high degree of judgment to assess forecasts of macroeconomic variables and significant increases in credit risk. Our estimates and assumptions consider the economic impact of the COVID-19 pandemic, and we continue to closely monitor the situation and its impacts on our clients. Uncertainty in judgments and assumptions remains elevated as at March 31, 2021, due to COVID-19.

Key Inputs and Assumptions

Measuring ECLs requires a complex calculation that involves a number of variables and assumptions. The key inputs for determining ECLs are:

- A borrower's credit quality, reflected through changes in risk ratings;
- Forward-looking macroeconomic conditions;
- Changes to the probability-weighted scenarios; and
- Stage migration as a result of the inputs noted above.

Forward-Looking Information

Relevant forward-looking economic information is incorporated for each loan portfolio when measuring ECLs, based on a five-year outlook considering a combination of past, current, and future economic conditions and outlooks. (See Note 2 for more on how forward-looking information is incorporated to measure ECLs.)

The following table presents the primary forward-looking economic information used to measure ECLs over the next 12 months and the remaining two-year forecast period for the three probability-weighted scenarios:

	As at March 31, 2021								
	Baseline scenario			Optimistic scenario			Pessimistic scenario		
	2021	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Unemployment rate *(%)*	**10.1**	**9.5**	**8.6**	**8.9**	**8.8**	**8.7**	**12.3**	**11.9**	**11.5**
Housing starts	**22,700**	**22,700**	**22,500**	**25,000**	**24,400**	**23,900**	**19,300**	**19,000**	**18,500**
Oil prices *(WTI, US$/bbl)*	**51**	**50**	**50**	**60**	**60**	**60**	**40**	**35**	**35**
Foreign-exchange rate *(CDN$1/US$1)*	**0.78**	**0.80**	**0.81**	**0.80**	**0.81**	**0.81**	**0.74**	**0.75**	**0.76**

	As at March 31, 2020								
	Baseline scenario			Optimistic scenario			Pessimistic scenario		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**
Unemployment rate *(%)*	8.7	8.5	8.0	7.7	7.6	7.6	9.4	8.9	8.6
Housing starts	19,400	18,100	21,700	20,200	20,100	18,500	18,100	18,200	16,200
Oil prices *(WTI, US$/bbl)*	35	40	45	40	45	45	30	35	40
Foreign-exchange rate *(CDN$1/US$1)*	0.74	0.75	0.76	0.75	0.76	0.77	0.70	0.72	0.73

Sensitivity of Allowance for Loan Losses

The Stage 1 and 2 allowance for loan losses are sensitive to the inputs used in the model, as described in Note 2. Changes to these inputs and assumptions would have an impact when assessing for a significant increase in credit risk and the measurement of ECL.

The following table presents a comparison between the reported allowance for loan losses for Stage 1 and 2 loans and the allowance under the baseline, optimistic, and pessimistic scenarios:

	As at March 31, 2021				As at March 31, 2020			
	Reported under IFRS 9	**Baseline scenario**	**Optimistic scenario**	**Pessimistic scenario**	Reported under IFRS 9	Baseline scenario	Optimistic scenario	Pessimistic scenario
Allowance for loan losses (Stage 1 and 2)	**$ 378,221**	**$ 373,304**	**$ 319,597**	**$ 451,218**	$ 315,453	$ 304,412	$ 260,880	$ 333,749

The following table presents the estimated impact of staging on the allowance for loan losses for loans and off-balance-sheet commitments if they were fully calculated under Stage 1 compared to the actual allowance recorded:

	As at March 31, 2021			As at March 31, 2020		
	Stage 1 and 2 allowance under IFRS 9	**Allowance – 100% in Stage 1**	**Impact of staging**	Stage 1 and 2 allowance under IFRS 9	Allowance – 100% in Stage 1	Impact of staging
Loans	**$ 378,221**	**$ 292,743**	**$ (85,478)**	$ 315,453	$ 260,564	$ (54,889)

The following tables reconcile the opening and closing allowances for loans, by each major category:

	For the year ended March 31, 2021						
						Comprises	
($ in thousands)	**Balance at beginning of period**	**Provision for loan losses**	**Net write-offs**	**Discounted cash flows on impaired loans and other**	**Balance at end of period**	**Loans**	**Other credit instruments (1)**
Business	**$ 552,640**	**$ 224,026**	**$ (138,043)**	**$ (5,501)**	**$ 633,122**	**$ 604,143**	**$ 28,979**
Residential mortgages	**12,858**	**9,278**	**(6,074)**	**(20)**	**16,042**	**15,969**	**73**
Personal	**92,624**	**35,498**	**(38,986)**	**(215)**	**88,921**	**80,739**	**8,182**
Credit card	**41,133**	**2,283**	**(10,690)**	**(54)**	**32,672**	**25,016**	**7,656**
Total	**$699,255**	**$ 271,085**	**$ (193,793)**	**$ (5,790)**	**$ 770,757**	**$ 725,867**	**$ 44,890**

	For the year ended March 31, 2020						
						Comprises	
($ in thousands)	Balance at beginning of period	Provision for loan losses	Net write-offs	Discounted cash flows on impaired loans and other	Balance at end of period	Loans	Other credit instruments (1)
Business	$ 546,825	$ 292,117	$ (286,542)	$ 240	$ 552,640	$ 508,730	$ 43,910
Residential mortgages	5,493	10,431	(2,802)	(264)	12,858	12,817	41
Personal	71,498	66,034	(44,641)	(267)	92,624	84,955	7,669
Credit card	41,097	17,398	(17,356)	(6)	41,133	28,688	12,445
Total	$664,913	$ 385,980	($351,341)	($297)	$ 699,255	$ 635,190	$ 64,065

(1) Other credit instruments, including off-balance-sheet items, are recorded to other liabilities on the consolidated statement of financial position.

The following tables reconcile the opening and closing allowances for loans, by stage, for each major category:

	For the year ended March 31, 2021				For the year ended March 31, 2020			
	Performing		**Impaired**		Performing		Impaired	
($ in thousands)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Allowance for loan losses – business loans								
Balance at beginning of period	**$ 54,309**	**$ 139,869**	**$ 358,462**	**$ 552,640**	$ 22,314	$ 77,863	$ 446,648	$ 546,825
Provision for loan losses								
Transfers into (out of) Stage 1 (1)	**117,695**	**(104,971)**	**(12,724)**	**-**	13,141	(13,452)	311	-
Transfers into (out of) Stage 2 (1)	**(22,945)**	**37,135**	**(14,190)**	**-**	(68)	(45,220)	45,288	-
Transfers into (out of) Stage 3 (1)	**(687)**	**(44,501)**	**45,188**	**-**	(4,962)	(138,992)	143,954	-
New originations (2)	**68,818**	**221,225**	**130,452**	**420,495**	26,179	107,964	77,285	211,428
Repayments (3)	**(37,933)**	**(187,052)**	**(111,104)**	**(336,089)**	(5,004)	(38,894)	(39,740)	(83,638)
Remeasurements (4)	**(86,577)**	**149,906**	**76,291**	**139,620**	2,721	190,596	(28,990)	164,327
Total provision for loan losses	**38,371**	**71,742**	**113,913**	**224,026**	32,007	62,002	198,108	292,117
Write-offs	**-**	**-**	**(167,190)**	**(167,190)**	-	-	(317,141)	(317,141)
Recoveries	**-**	**-**	**29,147**	**29,147**	-	-	30,599	30,599
Discounted cash flows on impaired loans and other	**(190)**	**(923)**	**(4,388)**	**(5,501)**	(12)	4	248	240
Balance at end of period	**$ 92,490**	**$ 210,688**	**$ 329,944**	**$ 633,122**	$ 54,309	$ 139,869	$ 358,462	$ 552,640

($ in thousands)	For the year ended March 31, 2021 Performing Stage 1	Stage 2	Impaired Stage 3	Total	For the year ended March 31, 2020 Performing Stage 1	Stage 2	Impaired Stage 3	Total
Allowance for loan losses – residential mortgages								
Balance at beginning of period	**$ 3,007**	**$ 5,469**	**$ 4,382**	**$ 12,858**	$ 1,495	$ 952	$ 3,046	$ 5,493
Provision for loan losses								
Transfers into (out of) Stage 1 (1)	**3,237**	**(3,142)**	**(95)**	**-**	(687)	674	13	-
Transfers into (out of) Stage 2 (1)	**(1,082)**	**2,374**	**(1,292)**	**-**	(4,114)	3,658	456	-
Transfers into (out of) Stage 3 (1)	**(2)**	**(643)**	**645**	**-**	(833)	(1,977)	2,810	-
New originations (2)	**1,219**	**(177)**	**151**	**1,193**	615	398	96	1,109
Repayments (3)	**(232)**	**(429)**	**(116)**	**(777)**	(24)	(70)	-	(94)
Remeasurements (4)	**(1,576)**	**4,604**	**5,834**	**8,862**	6,555	1,834	1,027	9,416
Total provision for loan losses	**1,564**	**2,587**	**5,127**	**9,278**	1,512	4,517	4,402	10,431
Write-offs	**-**	**-**	**(6,823)**	**(6,823)**	-	-	(3,339)	(3,339)
Recoveries	**-**	**-**	**749**	**749**	-	-	537	537
Discounted cash flows on impaired loans and other	**-**	**-**	**(20)**	**(20)**	-	-	(264)	(264)
Balance at end of period	**$ 4,571**	**$ 8,056**	**$ 3,415**	**$ 16,042**	$ 3,007	$ 5,469	$ 4,382	$ 12,858

($ in thousands)	For the year ended March 31, 2021 Performing Stage 1	Stage 2	Impaired Stage 3	Total	For the year ended March 31, 2020 Performing Stage 1	Stage 2	Impaired Stage 3	Total
Allowance for loan losses – personal loans								
Balance at beginning of period	**$ 42,834**	**$ 31,697**	**$ 18,093**	**$ 92,624**	$ 38,898	$ 11,764	$ 20,836	$ 71,498
Provision for loan losses								
Transfers into (out of) Stage 1 (1)	**28,710**	**(27,857)**	**(853)**	**-**	(6,873)	6,376	497	-
Transfers into (out of) Stage 2 (1)	**(8,082)**	**12,036**	**(3,954)**	**-**	(26,143)	19,358	6,785	-
Transfers into (out of) Stage 3 (1)	**(206)**	**(5,079)**	**5,285**	**-**	(9,046)	(14,401)	23,447	-
New originations (2)	**6,671**	**2,784**	**435**	**9,890**	7,364	1,476	1,645	10,485
Repayments (3)	**(4,042)**	**(4,706)**	**(5,928)**	**(14,676)**	(1,135)	(1,317)	(1,617)	(4,069)
Remeasurements (4)	**(29,790)**	**32,415**	**37,659**	**40,284**	39,769	8,441	11,408	59,618
Total provision for loan losses	**(6,739)**	**9,593**	**32,644**	**35,498**	3,936	19,933	42,165	66,034
Write-offs	**-**	**-**	**(40,208)**	**(40,208)**	-	-	(48,646)	(48,646)
Recoveries	**-**	**-**	**1,222**	**1,222**	-	-	4,005	4,005
Discounted cash flows on impaired loans and other	**-**	**-**	**(215)**	**(215)**	-	-	(267)	(267)
Balance at end of period	**$ 36,095**	**$ 41,290**	**$ 11,536**	**$ 88,921**	$ 42,834	$ 31,697	$ 18,093	$ 92,624

($ in thousands)	For the year ended March 31, 2021 Performing Stage 1	Stage 2	Impaired Stage 3	Total	For the year ended March 31, 2020 Performing Stage 1	Stage 2	Impaired Stage 3	Total
Allowance for loan losses – credit cards								
Balance at beginning of period	**$ 8,677**	**$ 29,591**	**$ 2,865**	**$ 41,133**	$ 10,567	$ 26,041	$ 4,489	$ 41,097
Provision for loan losses								
Transfers into (out of) Stage 1 (1)	**26,185**	**(26,185)**	**-**	**-**	870	(922)	52	-
Transfers into (out of) Stage 2 (1)	**(1,892)**	**1,892**	**-**	**-**	3,630	(5,553)	1,923	-
Transfers into (out of) Stage 3 (1)	**(90)**	**(1,751)**	**1,841**	**-**	(836)	(4,819)	5,655	-
New originations (2)	**545**	**293**	**-**	**838**	788	453	-	1,241
Repayments (3)	**385**	**1,516**	**(51)**	**1,850**	(441)	(2,921)	(2)	(3,364)
Remeasurements (4)	**(13,873)**	**4,648**	**8,820**	**(405)**	(5,921)	17,303	8,139	19,521
Total provision for loan losses	**11,260**	**(19,587)**	**10,610**	**2,283**	(1,910)	3,541	15,767	17,398
Write-offs	**-**	**-**	**(21,735)**	**(21,735)**	-	-	(27,656)	(27,656)
Recoveries	**-**	**-**	**11,045**	**11,045**	-	-	10,300	10,300
Discounted cash flows on impaired loans and other	**(17)**	**(2)**	**(35)**	**(54)**	20	9	(35)	(6)
Balance at end of period	**$ 19,920**	**$ 10,002**	**$ 2,750**	**$ 32,672**	$ 8,677	$ 29,591	$ 2,865	$ 41,133
Total balance as at end of period	**$ 153,076**	**$ 270,036**	**$ 347,645**	**$ 770,757**	$ 108,827	$ 206,626	$ 383,802	$ 699,255
Comprises: Loans	**$ 126,821**	**$ 251,401**	**$ 347,645**	**$ 725,867**	$ 88,735	$ 162,652	$ 383,802	$ 635,189
Comprises: Other credit instruments (5)	**26,255**	**18,635**	**-**	**44,890**	20,092	43,974	-	64,066

(1) Stage transfers represent movement between stages and exclude changes due to remeasurements.
(2) New originations relate to new loans recognized during the period.
(3) Repayments relate to loans fully repaid or derecognized and exclude loans written off where a credit loss was incurred.
(4) Remeasurements represent the change in the allowance due to changes in economic factors and risk and model parameters.
(5) Other credit instruments, including off-balance-sheet items, are recorded to other liabilities on the consolidated statement of financial position.

10 Derivative Financial Instruments

Most of ATB's derivative contracts are over-the-counter (OTC) transactions that are privately negotiated between ATB and the counterparty to the contract. The remainder are exchange-traded contracts transacted through organized and regulated exchanges and consist primarily of futures. ATB uses the following derivative financial instruments.

Swaps

Swaps are transactions in which two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- Interest rate swaps are OTC contracts in which ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate derivative portfolio to manage exposure to interest rate fluctuations primarily arising from the investment, loan, and deposit portfolios. Interest rate swaps are also used in the client derivative portfolio to help our corporate clients in managing risks associated with interest rate fluctuations.
- Cross-currency swaps are foreign-exchange transactions in which ATB exchanges interest and principal payments in different currencies. These are used in both the corporate and client portfolios to manage ATB's and its corporate clients' foreign-exchange risk.

Forwards and Futures

Foreign-exchange or commodity forwards are OTC transactions in which two parties agree to either buy or sell a specified amount of a currency or commodity at a specific price and on a predetermined future date. 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 clients. Commodity forward contracts are used only in the client derivative portfolio.

Futures are contractual obligations to buy or sell an interest-rate-sensitive financial instrument on a predetermined future date at a specified price. Futures contracts are transacted in standardized amounts on regulated exchanges that are subject to daily cash margining, and they are used only in the corporate derivative portfolio.

The fair value of derivative financial instruments segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

As at March 31 ($ in thousands)	2021 Favourable position	 Unfavourable position	2020 Favourable position	 Unfavourable position
Contracts not designated for hedge accounting				
Interest rate contracts				
Swaps	**$ 10,807**	**$ (59,941)**	$ 18,639	$ (113,883)
Futures	**13,055**	**(11,176)**	33,757	(29,495)
Other	**133,281**	**(65,857)**	167,702	(61,818)
Total interest rate contracts	**157,143**	**(136,974)**	220,098	(205,196)
Embedded derivatives				
Market-linked deposits	**-**	**(689)**	-	(1,919)
Total embedded derivatives	**-**	**(689)**	-	(1,919)
Foreign-exchange contracts				
Forwards	**91,126**	**(89,377)**	140,793	(83,494)
Cross-currency swaps	**32,189**	**(31,010)**	65,275	(59,258)
Total foreign-exchange contracts	**123,315**	**(120,387)**	206,068	(142,752)
Commodity contracts				
Forwards	**538,642**	**(471,484)**	438,912	(418,083)
Total commodity contracts	**538,642**	**(471,484)**	438,912	(418,083)
Total fair value of contracts not designated for hedge accounting	**819,100**	**(729,534)**	865,078	(767,950)
Contracts designated for hedge accounting				
Foreign-exchange contracts				
Cross-currency swaps (1)	**9,190**	**(9,332)**	115,634	-
Total foreign-exchange contracts	**9,190**	**(9,332)**	115,634	-
Interest rate contracts				
Swaps (2)	**353,506**	**(182,545)**	558,922	(221,306)
Total interest rate contracts	**353,506**	**(182,545)**	558,922	(221,306)
Total fair value of contracts designated for hedge accounting	**362,696**	**(191,877)**	674,556	(221,306)
Total fair value	**$ 1,181,796**	**$ (921,411)**	$ 1,539,634	$ (989,256)
Less impact of master netting agreements	**(557,471)**	**557,471**	(575,980)	575,980
Less impact of financial institution counterparty collateral held/posted	**(97,515)**	**123,198**	(636,524)	44,390
Residual credit exposure on derivatives to ATB	**$ 526,810**	**$ (240,742)**	$ 327,130	$ (368,886)

(1) As at March 31, 2021, $9.1 million of our favourable position relates to our cross-currency swap designated for fair-value hedge accounting used to manage fair-value changes of certain fixed-interest-rate wholesale borrowings, and $9.3 million of our unfavourable position relates to our cross-currency swap designated for cash-flow hedge accounting used to manage interest rate risk for certain deposits. As at March 31, 2020, $47.8 million of our favourable position related to our cross-currency swap designated for fair-value hedge accounting used to manage fair-value changes of certain fixed-interest-rate wholesale borrowings, and $67.9 million related to our cross-currency swap designated for cash-flow hedge accounting used to manage interest rate risk for certain deposits.

(2) The favourable and unfavourable positions as at March 31, 2021 and March 31, 2020, relate to interest rate swaps designated for cash-flow hedge accounting used to manage interest rate risk for certain loans, deposits, and securities.

ATB has recognized an unrealized gain of $2.0 million to net gains on derivatives in the statement of consolidated income during the year (2020: unrealized gain of $9.3 million) related to accounting for ineffectiveness arising from cash flow hedges. No ineffectiveness arising from fair-value hedges has been recorded to foreign-exchange revenue in OI in the consolidated statement of income during the year (2020: nil).

The following table shows when the impact of interest rate contracts and cross-currency swaps designated for cash-flow hedge accounting—used to manage the interest rate risk relating to certain loans, deposits, and securities, as noted in Note 2(b)—will be recognized to NII in the consolidated statement of income:

As at March 31, 2021 *($ 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 rate contracts							
Swaps							
Cash inflows	**$ 294,962**	**$ 208,366**	**$ 138,379**	**$ 125,301**	**$ 84,398**	**$ 173,755**	**$ 1,025,161**
Cash outflows	**(344,146)**	**(259,052)**	**(178,135)**	**(174,515)**	**(116,482)**	**(186,679)**	**(1,259,009)**
Net cash flows from interest rate contracts	**$ (49,184)**	**$ (50,686)**	**$ (39,756)**	**$ (49,214)**	**$ (32,084)**	**$ (12,924)**	**$ (233,848)**
Foreign-exchange contracts							
Cross-currency swaps							
Cash inflows	**$ 6,342**	**$ 153**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 6,495**
Cash outflows	**(5,518)**	**(132)**	**-**	**-**	**-**	**-**	**(5,650)**
Net cash flows from foreign-exchange contracts	**$ 824**	**$ 21**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 845**
Total net cash flows	**$ (48,360)**	**$ (50,665)**	**$ (39,756)**	**$ (49,214)**	**$ (32,084)**	**$ (12,924)**	**$ (233,003)**

As at March 31, 2020 *($ 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 rate contracts							
Swaps							
Cash inflows	$ 475,048	$ 342,282	$ 236,995	$ 180,196	$ 134,213	$ 282,422	$ 1,651,156
Cash outflows	(571,868)	(402,728)	(287,838)	(231,997)	(174,940)	(318,552)	(1,987,923)
Net cash flows from interest rate contracts	$ (96,820)	$ (60,446)	$ (50,843)	$ (51,801)	$ (40,727)	$ (36,130)	$ (336,767)
Foreign-exchange contracts							
Cross-currency swaps							
Cash inflows	$ 20,140	$ 5,987	$ 143	$ -	$ -	$ -	$ 26,270
Cash outflows	(14,129)	(6,528)	(157)	-	-	-	(20,814)
Net cash flows from foreign-exchange contracts	$ 6,011	$ (541)	$ (14)	$ -	$ -	$ -	$ 5,456
Total net cash flows	$ (90,809)	$ (60,987)	$ (50,857)	$ (51,801)	$ (40,727)	$ (36,130)	$ (331,311)

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 29 years as at March 31, 2021 (2020: 10 years).

The following table shows the amounts relating to the hedging and hedged items for ATB's fair-value hedges of foreign-exchange risk:

($ in thousands)	Hedge of U.S. dollar wholesale borrowing (1)	U.S. dollar wholesale borrowing (2)
Notional amount	$ 251,320	$ 251,320
Hedge ineffectiveness		
Gains (losses) on hedged item used to determine hedge ineffectiveness	-	-
Ineffectiveness recorded in other income – foreign exchange	-	-
Cumulative net fair-value change	9,190	(28,194)
Fair value at March 31, 2021		
Asset	**9,190**	**-**
Liability	**-**	**290,189**
Fair value at March 31, 2020		
Asset	47,764	-
Liability	-	318,665

(1) The fair value of the hedging derivative is reported as part of derivative asset and derivative liability on the consolidated statement of financial position.
(2) The fair value of the hedged item is reported as part of wholesale borrowings on the consolidated statement of financial position.

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 at March 31, 2021 ($ in thousands)	Not designated for hedge accounting	Designated for hedge accounting	Residual term of contract Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	**$ 4,468,479**	**$ 21,685,125**	**$ 2,300,000**	**$ 5,813,000**	**$ 12,852,050**	**$ 5,188,554**	**$ 26,153,604**
Other	**5,835,965**	**-**	**258,220**	**566,225**	**2,646,537**	**2,364,983**	**5,835,965**
Total interest rate contracts	**10,304,444**	**21,685,125**	**2,558,220**	**6,379,225**	**15,498,587**	**7,553,537**	**31,989,569**
Embedded derivatives							
Market-linked deposits	**313,383**	**-**	**280,762**	**32,316**	**305**	**-**	**313,383**
Total embedded derivatives	**313,383**	**-**	**280,762**	**32,316**	**305**	**-**	**313,383**
Foreign-exchange contracts							
Forwards	**6,003,136**	**-**	**2,964,444**	**2,204,492**	**834,200**	**-**	**6,003,136**
Cross-currency swaps	**980,024**	**594,128**	**311,085**	**141,551**	**1,121,516**	**-**	**1,574,152**
Total foreign-exchange contracts	**6,983,160**	**594,128**	**3,275,529**	**2,346,043**	**1,955,716**	**-**	**7,577,288**
Commodity contracts							
Forwards	**6,457,798**	**-**	**561,177**	**3,811,920**	**2,084,701**	**-**	**6,457,798**
Total commodity contracts	**6,457,798**	**-**	**561,177**	**3,811,920**	**2,084,701**	**-**	**6,457,798**
Total over-the-counter contracts	**24,058,785**	**22,279,253**	**6,675,688**	**12,569,504**	**19,539,309**	**7,553,537**	**46,338,038**
Exchange-traded contracts							
Interest rate contracts							
Futures	**13,332,000**	**-**	**2,146,000**	**11,186,000**	**-**	**-**	**13,332,000**
Total interest rate contracts	**13,332,000**	**-**	**2,146,000**	**11,186,000**	**-**	**-**	**13,332,000**
Total exchange-traded contracts	**13,332,000**	**-**	**2,146,000**	**11,186,000**	**-**	**-**	**13,332,000**
Total	**$ 37,390,785**	**$ 22,279,253**	**$ 8,821,688**	**$ 23,755,504**	**$ 19,539,309**	**$ 7,553,537**	**$ 59,670,038**

As at March 31, 2020 ($ in thousands)	Not designated for hedge accounting	Designated for hedge accounting	Residual term of contract Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 3,714,000	$ 28,584,975	$ 3,823,814	$ 8,780,056	$ 14,183,800	$ 5,511,305	$ 32,298,975
Other	3,855,596	-	181,655	469,313	2,025,459	1,179,169	3,855,596
Total interest rate contracts	7,569,596	28,584,975	4,005,469	9,249,369	16,209,259	6,690,474	36,154,571
Embedded derivatives							
Market-linked deposits	423,127	-	7	113,619	309,460	41	423,127
Total embedded derivatives	423,127	-	7	113,619	309,460	41	423,127
Foreign-exchange contracts							
Forwards	2,136,282	-	585,067	1,048,387	502,828	-	2,136,282
Cross-currency swaps	981,183	1,103,847	190,057	-	1,712,453	182,520	2,085,030
Total foreign-exchange contracts	3,117,465	1,103,847	775,124	1,048,387	2,215,281	182,520	4,221,312
Commodity contracts							
Forwards	2,130,535	-	647,168	972,534	510,833	-	2,130,535
Total commodity contracts	2,130,535	-	647,168	972,534	510,833	-	2,130,535
Total over-the-counter contracts	13,240,723	29,688,822	5,427,768	11,383,909	19,244,833	6,873,035	42,929,545
Exchange-traded contracts							
Interest rate contracts							
Futures	23,688,000	-	2,200,000	13,500,000	7,988,000	-	23,688,000
Total interest rate contracts	23,688,000	-	2,200,000	13,500,000	7,988,000	-	23,688,000
Total exchange-traded contracts	23,688,000	-	2,200,000	13,500,000	7,988,000	-	23,688,000
Total	$ 36,928,723	$ 29,688,822	$ 7,627,768	$ 24,883,909	$ 27,232,833	$ 6,873,035	$ 66,617,545

The following table presents the notional amounts for derivative instruments that have been designated for hedge accounting:

As at March 31, 2021 *($ in thousands)*	Residual term of contract Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Over-the-counter contracts					
Interest rate contracts					
Swaps (1)	**$ 1,670,000**	**$ 4,115,000**	**$ 11,280,525**	**$ 4,619,600**	**$ 21,685,125**
Foreign-exchange contracts					
Cross-currency swaps (2)	**-**	**-**	**594,127**	**-**	**594,127**
Total	**$ 1,670,000**	**$ 4,115,000**	**$ 11,874,652**	**$ 4,619,600**	**$ 22,279,252**

(1) The notional amounts designated for hedge accounting relates to our interest rate contracts designated for cash-flow hedge accounting used to manage interest rate risk for certain loans, deposits, and securities.
(2) $251.3 million of the notional amount with a residual term of 1 to 5 years relates to our cross-currency swap designated for fair-value hedge accounting used to manage fair-value changes of certain fixed-interest-rate wholesale borrowings. The remaining $342.8 million with a residual term of 1 to 5 years relates to cross-currency swaps designated for cash-flow hedge accounting used to manage interest rate risk for certain deposits.

As at March 31, 2020 *($ in thousands)*	Residual term of contract Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Over-the-counter contracts					
Interest rate contracts					
Swaps (1)	$ 3,246,600	$ 8,005,000	$ 12,484,275	$ 4,849,100	$ 28,584,975
Foreign-exchange contracts					
Cross-currency swaps (2)	-	-	1,103,847	-	1,103,847
Total	$ 3,246,600	$ 8,005,000	$ 13,588,122	$ 4,849,100	$ 29,688,822

(1) The notional amounts designated for hedge accounting relates to our interest rate contracts designated for cash-flow hedge accounting used to manage interest rate risk for certain loans, deposits, and securities.
(2) $280.8 million of the notional amount with a residual term of 1 to 5 years relates to our cross-currency swap designated for fair-value hedge accounting used to manage fair-value changes of certain fixed-interest-rate wholesale borrowings. The remaining $823.0 million with a residual term of 1 to 5 years relates to cross-currency swaps designated for cash-flow hedge accounting.

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 have notional amounts of $183.3 million as at March 31, 2021 (2020: $116.1 million).

Derivative-Related Credit Risk

Derivative financial instruments traded in the OTC market could incur financial loss 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 assessed to be creditworthy, and we manage 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 unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

The current replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value to ATB. The credit equivalent amount is the sum of the current replacement cost and the PFE, which is defined in a Minister-authorized guideline that was modelled after guidelines governing other Canadian deposit-taking institutions. The risk-weighted amount is determined by applying standard measures of counterparty credit risk to the credit equivalent amount. The derivative-related credit risks for derivative instruments are as follows:

	2021			2020		
As at March 31 *($ in thousands)*	**Replacement cost**	**Credit equivalent amount**	**Risk-adjusted balance**	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Contracts not designated for hedge accounting						
Interest rate contracts						
Swaps	**$ 10,807**	**$ 13,238**	**$ 2,648**	$ 18,639	$ 20,632	$ 4,126
Futures	**13,055**	**13,055**	**2,609**	33,757	33,757	6,751
Other	**133,281**	**164,911**	**65,547**	167,702	189,894	93,361
Total interest rate contracts	**157,143**	**191,204**	**70,804**	220,098	244,283	104,238
Foreign-exchange contracts						
Forwards	**91,126**	**132,319**	**42,347**	140,793	160,615	46,962
Cross-currency swaps	**32,189**	**47,253**	**15,276**	65,275	89,817	21,916
Total foreign-exchange contracts	**123,315**	**179,572**	**57,623**	206,068	250,432	68,878
Commodity contracts						
Forwards	**538,642**	**888,790**	**363,032**	438,912	542,234	134,396

As at March 31 ($ in thousands)	2021 Replacement cost	2021 Credit equivalent amount	2021 Risk-adjusted balance	2020 Replacement cost	2020 Credit equivalent amount	2020 Risk-adjusted balance
Total commodity contracts	**538,642**	**888,790**	**363,032**	438,912	542,234	134,396
Total contracts not designated for hedge accounting	**819,100**	**1,259,566**	**491,459**	865,078	1,036,949	307,512
Contracts designated for hedge accounting						
Interest rate contracts						
Cross-currency swaps	**9,190**	**21,756**	**4,351**	115,634	170,826	34,165
Swaps	**353,506**	**420,383**	**84,077**	558,922	651,600	130,320
Total interest rate contracts	**362,696**	**442,139**	**88,428**	674,556	822,426	164,485
Total contracts designated for hedge accounting	**362,696**	**442,139**	**88,428**	674,556	822,426	164,485
Total	**$ 1,181,796**	**$ 1,701,705**	**$ 579,887**	$ 1,539,634	$ 1,859,375	$ 471,997

11 Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	Leasehold improvements under construction	Computer and other equipment under development	Right-of-use buildings	Right-of-use equipment	Land	Total
Cost										
Balance as at April 1, 2019	$ 234,930	$ 93,626	$ 105,467	$ 83,485	$ 3,890	$ 8,571	$ 228,588	$ 10,128	$ 7,328	$ 776,013
Additions	5,806	5,538	1,356	4,053	6,571	7,140	29,983	13,626	-	74,073
Disposals	(2,312)	(27,075)	-	(334)	(7,573)	(10,563)	(6,043)	(11,645)	-	(65,545)
Balance as at March 31, 2020	$ 238,424	$ 72,089	$ 106,823	$ 87,204	$ 2,888	$ 5,148	$ 252,528	$ 12,109	$ 7,328	$ 784,541
Balance as at April 1, 2020	**$ 238,424**	**$ 72,089**	**$ 106,823**	**$ 87,204**	**$ 2,888**	**$ 5,148**	**$ 252,528**	**$ 12,109**	**$ 7,328**	**$ 784,541**
Additions	**2,770**	**5,909**	**991**	**2,733**	**3,554**	**7,705**	**2,610**	**2,040**	**-**	**28,312**
Disposals	**(31,626)**	**(32,928)**	**-**	**(2,416)**	**(4,181)**	**(8,226)**	**(1,084)**	**-**	**-**	**(80,461)**
Balance as at March 31, 2021	**$ 209,568**	**$ 45,070**	**$ 107,814**	**$ 87,521**	**$ 2,261**	**$ 4,627**	**$ 254,054**	**$ 14,149**	**$ 7,328**	**$ 732,392**
Depreciation										
Balance as at April 1, 2019	$ 157,924	$ 75,469	$ 74,517	$ 69,560	$ -	$ -	$ 108,076	$ 4,833	$ -	$ 490,379
Depreciation for the year	11,169	8,790	2,187	5,673	-	-	26,017	4,575	-	58,411
Transfers and disposals	(2,279)	(26,500)	-	(247)	-	-	(6,043)	(8,180)	-	(43,249)
Balance as at March 31, 2020	$ 166,814	$ 57,759	$ 76,704	$ 74,986	$ -	$ -	$ 128,050	$ 1,228	$ -	$ 505,541
Balance as at April 1, 2020	**$ 166,814**	**$ 57,759**	**$ 76,704**	**$ 74,986**	**$ -**	**$ -**	**$ 128,050**	**$ 1,228**	**$ -**	**$ 505,541**
Depreciation for the year	**9,105**	**7,805**	**2,215**	**4,605**	**-**	**-**	**20,407**	**4,982**	**-**	**49,119**
Transfers and disposals	**(27,319)**	**(29,946)**	**-**	**(2,188)**	**-**	**-**	**(1,084)**	**-**	**-**	**(60,537)**
Balance as at March 31, 2021	**$ 148,600**	**$ 35,618**	**$ 78,919**	**$ 77,403**	**$ -**	**$ -**	**$ 147,373**	**$ 6,210**	**$ -**	**$ 494,123**
Carrying amounts										
Balance as at March 31, 2020	$ 71,610	$ 14,330	$ 30,119	$ 12,218	$ 2,888	$ 5,148	$ 124,478	$ 10,881	$ 7,328	$ 279,000
Balance as at March 31, 2021	**$ 60,968**	**$ 9,452**	**$ 28,895**	**$ 10,118**	**$ 2,261**	**$ 4,627**	**$ 106,681**	**$ 7,939**	**$ 7,328**	**$ 238,269**

No impairments were recognized during the year ended March 31, 2021 (2020: nil). A loss of $1.3 million (2020: $0.5 million loss) was recognized during the year for the disposal and write-offs of property and equipment. Income of $2.8 million (2020: $2.8 million) was recorded in the consolidated statement of income from our sublease arrangements.

12 Software and Other Intangibles

($ in thousands)	Computer software	Software under development	Other intangibles	Goodwill	Total
Cost					
Balance as at April 1, 2019	$ 588,495	$ 71,214	$ 233	$ -	$ 659,942
Transfers and additions	64,480	79,679	-	6,845	151,004
Transfers and disposals	(29,651)	(61,432)	-	-	(91,083)
Balance as at March 31, 2020	$ 623,324	$ 89,461	$ 233	$ 6,845	$ 719,863
Balance as at April 1, 2020	**$ 623,324**	**$ 89,461**	**$ 233**	**$ 6,845**	**$ 719,863**
Transfers and additions	**91,051**	**60,253**	**41**	**-**	**151,345**
Transfers and disposals	**(26,020)**	**(91,042)**	**-**	**-**	**(117,062)**
Balance as at March 31, 2021	**$ 688,355**	**$ 58,672**	**$ 274**	**$ 6,845**	**$ 754,146**
Depreciation					
Balance as at April 1, 2019	$ 357,019	$ -	$ 58	$ -	$ 357,077
Depreciation for the year	77,131	-	24	-	77,155
Transfers and disposals	(23,188)	-	-	-	(23,188)
Balance as at March 31, 2020	$ 410,962	$ -	$ 82	$ -	$ 411,044
Balance as at April 1, 2020	**$ 410,962**	**$ -**	**$ 82**	**$ -**	**$ 411,044**
Depreciation for the year	**81,638**	**-**	**27**	**-**	**81,665**
Transfers and disposals	**(21,271)**	**-**	**-**	**-**	**(21,271)**
Balance as at March 31, 2021	**$ 471,329**	**$ -**	**$ 109**	**$ -**	**$ 471,438**
Carrying amounts					
Balance as at March 31, 2020	$ 212,362	$ 89,461	$ 151	$ 6,845	$ 308,819
Balance as at March 31, 2021	**$ 217,026**	**$ 58,672**	**$ 165**	**$ 6,845**	**$ 282,708**

No impairments were recognized during the year ended March 31, 2021 (2020: nil). No loss (2020: $1.0 million loss) was recognized during the year for the disposal and write-offs of software and other intangibles.

The goodwill associated with our purchase of Grow Technologies Inc. (Grow) is $6.8 million (see Note 26 for details). ATB performs an impairment test annually on March 31 by assessing for any indications of impairment and comparing Grow's carrying value to its recoverable amount. As at March 31, 2021, and at March 31, 2020, there were no indicators of impairment or amounts recorded.

13 Other Assets

As at March 31 *($ in thousands)*	**2021**	2020
Accounts receivable – financial market products	**$ 397,993**	$ 275,667
Prepaid expenses and other receivables	**291,166**	236,128
Accrued interest receivable	**75,001**	82,692
Other	**31,199**	52,250
Total	**$ 795,359**	$ 646,737

14 Deposits

As at March 31, 2021 ($ in thousands)	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	
Redeemable fixed-date deposits	$ -	$ 1,744,892	$ 55,543	$ 16,268	$ 6,668	$ 4,794	$ 583	$ 1,828,748
Non-redeemable fixed-date deposits	-	4,179,616	1,089,015	566,017	99,514	79,570	344	6,014,076
Savings accounts	12,241,167	-	-	-	-	-	-	12,241,167
Transactions accounts	12,035,331	-	-	-	-	-	-	12,035,331
Notice accounts	5,639,066	-	-	-	-	-	-	5,639,066
Total	**$ 29,915,564**	**$ 5,924,508**	**$ 1,144,558**	**$ 582,285**	**$ 106,182**	**$ 84,364**	**$ 927**	**$ 37,758,388**

As at March 31, 2020 ($ in thousands)	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	
Redeemable fixed-date deposits	$ -	$ 1,331,784	$ 82,958	$ 28,727	$ 12,040	$ 6,691	$ 366	$ 1,462,566
Non-redeemable fixed-date deposits	-	4,935,357	1,987,984	1,316,771	190,296	97,083	161	8,527,652
Savings accounts	9,485,318	-	-	-	-	-	-	9,485,318
Transactions accounts	8,653,216	-	-	-	-	-	-	8,653,216
Notice accounts	7,244,615	-	-	-	-	-	-	7,244,615
Total	$ 25,383,149	$ 6,267,141	$ 2,070,942	$ 1,345,498	$ 202,336	$ 103,774	$ 527	$ 35,373,367

The total deposits presented above include $1.4 billion (2020: $1.4 billion) denominated in U.S. funds.

As at March 31, 2021, deposits by various departments and agencies of the GoA included in the preceding schedule total $314.1 million (2020: $236.9 million).

The repayment of all deposits and wholesale borrowings, 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, 2021, the fee was $58.5 million (2020: $55.0 million), with $52.4 million (2020: $46.7 million) recorded to NIE for deposits and the remainder to NII for wholesale borrowings and collateralized borrowings for credit cards.

15 Collateralized Borrowings

Canada Mortgage Bonds Program

ATB periodically securitizes insured RMLs by participating in the *National Housing Act* MBS Program. The MBS issued as a result of this program are pledged to the CMB program or to third-party investors. The CHT uses the proceeds of its bond issuance to finance the purchase of MBSs issued by ATB. As an issuer of the MBSs, ATB is responsible for advancing all scheduled principal and interest payments to CMHC, whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered are ultimately recovered from the insurer.

The sale of mortgage pools that comprise the MBSs does not qualify for derecognition as outlined in IFRS 9 *Financial Instruments*, as ATB retains the prepayment, credit, and interest rate risks associated with the mortgages, which represent substantially all of the risks and rewards. Therefore, it is accounted for as a collateralized borrowing. Also included in the collateralized borrowing liabilities are 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 ECLs on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of ATB in the event of failure of debtors to pay when due.

As part of a CMB transaction, ATB must enter into a total return swap with highly rated counterparties, exchanging cash flows of the CMB for those of the MBSs transferred to CHT. Any excess or shortfall in these cash flows is absorbed by ATB. These swaps are not recognized on ATB's consolidated statement of financial position, as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and associated CMB collateralized borrowing liabilities. Accordingly, these swaps are recognized on an accrual basis and not fair-valued through ATB's consolidated statement of income. The notional amount of these swaps as at March 31, 2021, is $7.8 billion (2020: $8.0 billion).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBSs sold to the CHT are transferred to the CHT monthly, where they are either reinvested in new MBSs or invested in eligible investments.

Credit Card Securitization

ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This program allows ATB to borrow up to 85% of the amount of credit card receivables pledged. The secured credit card receivables remain on ATB's consolidated statement of financial position and have not been transferred, as they do not qualify for derecognition. Should the amount securitized not adequately support the program, ATB will be responsible for funding this shortfall.

The following table presents the carrying amount of ATB's RMLs, credit card receivables, and assets pledged as collateral for the associated liability recognized in the consolidated statement of financial position:

As at March 31 *($ in thousands)*	**2021**	2020
Principal value of mortgages pledged as collateral	**$ 6,279,964**	$ 7,394,422
ATB mortgage-backed securities pledged as collateral through repurchase agreements	**1,548,104**	605,722
Principal value of credit card receivables pledged as collateral	**625,496**	678,852
Total	**$ 8,453,564**	$ 8,678,996
Associated liabilities	**$ 7,931,082**	$ 8,545,092

16 Other Liabilities

As at March 31 *($ in thousands)*	Note	**2021**	2020
Accounts payable and accrued liabilities (1)		**$ 681,766**	$ 1,390,631
Accounts payable – financial market products		**392,353**	256,303
Accrued interest payable		**158,402**	208,761
Payment in lieu of tax and income taxes payable	20	**62,884**	30,846
Due to clients, brokers, and dealers		**99,529**	108,664
Accrued-pension-benefit liability	19	**33,807**	18,336
Achievement notes	24	**58,454**	55,172
Deposit guarantee fee payable		**58,487**	54,990
Total		**$ 1,545,682**	$ 2,123,703

(1) Includes lease liabilities of $171,334 (2020: $195,187). (See Note 22).

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 20, since March 31, 2011, ATB has issued subordinated debentures annually to settle the outstanding liability for ATB's PILOT for each fiscal year.

As at March 31, 2021, ATB has no existing subordinated debentures (2020: nil).

18 Salaries and Benefits

ATB has included certain disclosures required in the Director Compensation section of the MD&A relating to the Board of Directors' compensation and an audited Compensation Summary section of the MD&A relating to key management personnel compensation.

19 Employee Benefits

Public Service Pension Plan

The PSPP is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies, and public bodies. Prior to March 1, 2019, the Minister was the legal trustee for the plan. On March 1, 2019, PSPP Corporation became the trustee and administrator of the plan. As a result, PSPP is now governed by the PSPP Sponsor Board and PSPP Corporation.

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 DB accounting. ATB has estimated its share of the fair value of assets, the DB obligation, and the net pension liability as at March 31, 2021, based on its prorated share of plan contributions adjusted for its prorated contribution rate (split 50/50 between employer and employee). ATB reassesses and discloses the estimated value of this liability annually.

Registered Pension Plan

ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or DC provisions. The DB component provides benefits based on members' years of service and earnings. The DC component provides annual contributions based on members' earnings.

ATB amended the ATB Plan to change the annual contributions in the DC component effective January 1, 2015, and to close the DB component to service accruals effective July 7, 2016. Current members in the DB component will continue to accrue earnings for their highest average earnings calculations and service for early retirement subsidies but, effective July 8, 2016, will accrue future benefits under the DC component. Since July 8, 2016, all new entrants into the ATB Plan automatically go into the DC component.

Effective July 15, 2006, ATB finalized arrangements with the GoA 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.

Since June 27, 2014, any employee promoted to a management position joins the plan under the DC provision, and any pension benefit earned in the PSPP is deferred at Alberta Pension Services, or, if eligible, the employee may choose to withdraw their pension benefit.

Non-registered Plans

ATB also provides a non-registered DB SRP and OPEB for designated management employees. The SRP provides benefits based on members' years of service and earnings over the Canada Revenue Agency maximum pension limits.

Plan Risks

The DB plans expose ATB to actuarial risks such as longevity, currency, interest rate, and market risks. ATB, in conjunction with the HR and Retirement Committees, manages risk through the plan's statement of investment policies and procedures and pension investment risk management policy, which:

- Establishes allowable and prohibited investment types;
- Sets diversification requirements;
- Limits portfolio mismatch risk through an asset allocation policy; and
- Limits market risks associated with the underlying fund assets.

Breakdown of Defined-Benefit Obligation

As at March 31, 2021 *($ in thousands)*	**Registered plan**	**Supplemental and other**	**ATB's share of PSPP**
Active	**$ 127,970**	**$ 570**	**$ 119,471**
Deferred	**24,957**	**136**	**33,585**
Pensioners and beneficiaries	**277,095**	**7,262**	**146,462**
Total defined-benefit obligation	**$ 430,022**	**$ 7,968**	**$ 299,518**

As at March 31, 2020 *($ in thousands)*	Registered plan	Supplemental and other	ATB's share of PSPP
Active	$ 127,430	$ 956	$ 120,533
Deferred	20,725	923	33,299
Pensioners and beneficiaries	227,281	5,815	118,166
Total defined-benefit obligation	$ 375,436	$ 7,694	$ 271,998

Breakdown of ATB Plan Assets

	2021	2020
As at March 31 *($ in thousands)*	**Quoted on an active market**	Quoted on an active market
Bonds		
Provinces, municipal corporations, and other public administrations	**$ -**	$ 73
Other issuers	**340,195**	334,204
Shares	**108,197**	93,868
Cash and money-market securities	**2,069**	981
Total fair value of plan assets	**$ 450,461**	$ 429,126

Asset/Liability Matching Strategy

ATB's pension plan investment policy is reviewed each year. The current policy is to match those assets in respect of inactive members with a matching fixed- income portfolio. For active members who have liabilities with other variables such as salary growth, assets are not matched but an equity- centric portfolio is held (70% benchmark in equities). A more in-depth asset/liability study, which involves a detailed risk assessment, is conducted every three to five years.

Cash Payments

For the year ended March 31, 2021, total cash paid or payable for employee benefits—cash contributed by ATB for the DB and DC provisions of the ATB Plan—made directly to beneficiaries for the unfunded SRP and cash contributed to the PSPP was $49.3 million (2020: $45.1 million).

Contributions expected during the upcoming year are $0.8 million (2020: $1.7 million) for the DB portion of the ATB Plan, $0.4 million (2020: $0.4 million) for the unfunded SRP and CPS, and $10.8 million (2020: $11.2 million) for the PSPP.

Pension Plan Obligation Maturity Profile

For 2021, the weighted-average financial duration of the main group plans was approximately 17 years (2020: 15 years).

Net Accrued-Benefit Liability

The funded status and net accrued-pension-benefit liability for the DB provisions of the ATB Plan and the other pension obligations—which include the PSPP, SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, OPEB, and the NSP—consist of the following:

As at March 31 *($ in thousands)*	**2021**	2020
Registered plan		
Fair value of plan assets	**$ 450,461**	$ 429,126
Projected benefit obligation	**(421,621)**	(375,562)
Net pension-benefit asset (1)	**$ 28,840**	$ 53,564
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	**$ (7,968)**	$ (7,694)
Net pension-benefit liability (1)	**$ (7,968)**	$ (7,694)
ATB's share of PSPP		
Fair value of plan assets	**$ 253,744**	$ 215,488
Projected benefit obligation	**(299,518)**	(271,998)
Net pension-benefit liability (1)	**$ (45,774)**	$ (56,510)
Notional supplemental plan liability	**$ (8,905)**	$ (7,696)
Total net pension-benefit liability (1)(2)	**$ (33,807)**	$ (18,336)

(1) The effect of asset limitation and IAS minimum funding requirements is nil.
(2) There are no unrecognized actuarial gains/losses and past-service costs.

The net accrued-benefit liability is included in other liabilities in the consolidated statement of financial position as appropriate. (See Note 16.)

Other Comprehensive Income

As at March 31	Registered plan		Supplemental and other		ATB's share of PSPP	
($ in thousands)	**2021**	2020	**2021**	2020	**2021**	2020
Actuarial (gain) loss on plan assets	**$ (23,736)**	**$ 7,495**	**$ -**	**$ -**	**$ (28,032)**	$ 57,901
Effect of changes in financial assumptions	**44,901**	**(59,406)**	**688**	**(995)**	**32,153**	(30,782)
Experience (gain) loss on plan liabilities	**5,738**	**(61)**	**10**	**70**	**(17,205)**	(37,363)
Amount recognized in other comprehensive (income) loss	**$ 26,903**	**$ (51,972)**	**$ 698**	**$ (925)**	**$ (13,084)**	$ (10,244)
Beginning balance, accumulated other comprehensive loss (income)	**25,684**	**77,490**	**4,057**	**4,982**	**(27,965)**	(17,721)
Ending balance, accumulated other comprehensive loss (income)	**$ 52,587**	**$ 25,518**	**$ 4,755**	**$ 4,057**	**$ (41,049)**	$ (27,965)

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan, the PSPP, and the SRP and OPEB obligations are as follows:

As at March 31	Registered plan		Supplemental and other		ATB's share of PSPP	
($ in thousands)	**2021**	2020	**2021**	2020	**2021**	2020
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	**$ 429,126**	$ 441,383	**$ -**	$ -	**$ 215,488**	$ 264,132
Contributions from ATB	**623**	1,722	**738**	710	**11,262**	11,202
Interest income	**17,676**	14,312	**-**	-	**9,086**	8,747
Actuarial (gain) loss on plan assets	**23,748**	(7,114)	**-**	-	**28,032**	(57,901)
Benefits paid	**(19,857)**	(19,943)	**(738)**	(710)	**(10,124)**	(10,692)
Actual plan expenses	**(855)**	(1,234)	**-**	-	**-**	-
Fair value of plan assets at end of the year	**$ 450,461**	$ 429,126	**$ -**	$ -	**$ 253,744**	$ 215,488
Change in defined-benefit obligation						
Projected benefit obligation at beginning of the year	**$ 375,562**	$ 440,697	**$ 7,694**	$ 9,037	**$ 271,998**	$ 326,782
Effect of changes in financial assumptions	**44,901**	(59,406)	**688**	(995)	**32,153**	(30,782)
Experience (gain) loss on plan liabilities	**5,738**	(61)	**10**	70	**(17,205)**	(37,363)
Current-service costs	**-**	-	**-**	-	**11,472**	13,436
Interest expense	**15,277**	14,275	**314**	292	**11,224**	10,617
Benefits paid	**(19,857)**	(19,943)	**(738)**	(710)	**(10,124)**	(10,692)
Less: defined-benefit obligation at end of the year	**$ 421,621**	$ 375,562	**$ 7,968**	$ 7,694	**$ 299,518**	$ 271,998
Net pension-benefit asset (liability)	**$ 28,840**	$ 53,564	**$ (7,968)**	$ (7,694)	**$ (45,774)**	$ (56,510)

Defined-Benefit Pension Expense

Benefit expense for DB provisions of the ATB Plan and for PSPP, SRP, and OPEB consists of the following:

As at March 31	Registered plan		Supplemental and other		ATB's share of PSPP	
($ in thousands)	**2021**	2020	**2021**	2020	**2021**	2020
Current-service costs	**$ -**	$ -	**$ -**	$ -	**$ 11,472**	$ 13,436
Interest expense	**15,403**	14,275	**314**	292	**11,224**	10,617
Interest income	**(17,676)**	(14,312)	**-**	-	**(9,086)**	(8,747)
Administrative expenses and taxes	**843**	853	**-**	-	**-**	-
Net pension-benefit expense recognized	**$ (1,430)**	$ 816	**$ 314**	$ 292	**$ 13,610**	$ 15,306

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	
	2021	2020	**2021**	2020	**2021**	2020
Accrued-benefit obligation as at March 31						
Discount rate at end of the year	**3.4%**	4.2%	**3.4%**	4.2%	**3.4%**	4.2%
Rate of compensation increase (1)	**0.8%**	-	**0.8%**	-	**0.0%**	3.2%
Defined-benefit expense for the year ended March 31						
Discount rate at beginning of the year	**4.2%**	3.3%	**4.2%**	3.3%	**4.2%**	3.3%
Rate of compensation increase (1)	-	-	-	-	**0.0%**	3.2%
ATB's share of PSPP contributions	-	-	-	-	**3.2%**	3.6%

(1) This refers to 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, 2021, and the related expense for the year then ended:

As at March 31, 2021 *($ in thousands)*		Registered plan Benefit obligation	Registered plan Benefit expense	Supplemental and other Benefit obligation	Supplemental and other Benefit expense	ATB's share of the PSPP Benefit obligation	ATB's share of the PSPP Benefit expense
Discount rate							
Impact of:	1.0% increase	**$ (58,055)**	**$ (2,843)**	**$ (854)**	**$ 40**	**$ (39,636)**	**$ (3,703)**
	1.0% decrease	**74,215**	**2,069**	**1,033**	**(52)**	**45,681**	**3,615**
Inflation rate							
Impact of:	1.0% increase	**35,849**	**1,218**	**32**	**1**	**19,875**	**1,417**
	1.0% decrease	**(31,810)**	**(1,082)**	**(30)**	**(1)**	**(18,638)**	**(1,333)**
Rate of compensation increase							
Impact of:	0.25% increase	**1,306**	**44**	**12**	**1**	**2,368**	**356**
	0.25% decrease	**(1,283)**	**(44)**	**(11)**	**-**	**(2,349)**	**(352)**
Mortality							
Impact of:	10.0% increase	**(8,479)**	**(289)**	**(144)**	**(4)**	**n/a(1)**	**n/a(1)**
	10.0% decrease	**9,338**	**317**	**158**	**6**	**n/a(1)**	**n/a(1)**

(1) Mortality sensitivity information for the PSPP is not available.

This sensitivity analysis should be used with caution, as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables, and actual experience may result in simultaneous changes to a number of key assumptions. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

20 Payment in Lieu of Tax

Pursuant to the *ATB Act*, the GoA may assess a charge to ATB as prescribed by the *Alberta Treasury Branches Regulation* (*ATB Regulation*). The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated NI as reported in its audited annual financial statements. PILOT is calculated as 23% of NI reported under IFRS. NI earned by ATB Private Equity, LP, a new legal entity registered March 23, 2020, is also subject to PILOT. Effective April 1, 2020, the methodology to calculate ATB's PILOT is now allocated to each AoE based on 23% of the AoE's NI before PILOT.

As at March 31, 2021, ATB has accrued a total of $62.9 million (2020: $30.8 million) for PILOT. The amount outstanding as at March 31, 2020, was settled on June 30, 2020, with ATB issuing a subordinated debenture to the GoA. (See Note 17.)

Prior to April 1, 2020, income earned by ATB Capital Markets Inc. was subject to income tax, resulting in a $0.2 million refund last year.

21 Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the GoA on terms similar to those offered to non-related parties. (See Note 14.) These services also include OTC foreign-exchange forwards to manage currency exposure. (See Note 10.) The fair values of the asset and liability associated with these derivative contracts as at March 31, 2021, are $10.0 million (2020: $15.6 million) and $10.1 million (2020: $16.8 million), respectively.

During the year, ATB leased certain premises from the GoA. For the year ended March 31, 2021, the total of these payments was $0.3 million (2020: $0.3 million). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all client deposits and a PILOT. (See Notes 14 and 20.) ATB has no subordinated debt outstanding with the Crown in right of Alberta. (See Note 17.)

ATB entered into a wholesale borrowing agreement with the Minister on November 24, 2003 (amended November 9, 2007). The agreement was amended again in December 2015 to increase the available limit of borrowings to $7.0 billion from $5.5 billion. Effective March 31, 2020, the limit was increased by $2.0 billion to $9.0 billion. Under this agreement, the Minister acts as fiscal agent of ATB under the *Financial Administration Act* and is involved in raising wholesale borrowings in the marketplace. As at March 31, 2021, wholesale borrowings are $3.5 billion (2020: $4.4 billion), payable to the Minister.

ATB provides loans to key management personnel, defined as those having authority and responsibility for planning, directing, and controlling the activities of ATB; their close family members; and their related entities on market conditions, except for banking products and services that are subject to approved guidelines governing all employees. As at March 31, 2021, $6.7 million (2020: $6.9 million) in loans are outstanding. Key management personnel have deposits provided at standard market rates. As at March 31, 2021, $0.9 million (2020: $1.1 million) in deposits were outstanding.

No impairment losses were recorded against balances outstanding from key management personnel, and no specific allowances for impairment were recognized on balances with these personnel and their close family members. Key management personnel's compensation is disclosed in the audited compensation summary in the Executive Compensation Discussion and Analysis in the MD&A.

Key management personnel, excluding the President and CEO, may also purchase achievement notes based on their role within ATB. As at March 31, 2021, $3.8 million (2020: $3.0 million) in achievement notes are outstanding to this group.

ATB's key management personnel include our NEOs; President and CEO; CFO; Senior EVP, ATB Business, and CEO, ATB Capital Markets; Chief Experience Officer; and Chief Technology Officer. The following table presents the compensation of ATB's Board and NEOs:

For the year ended March 31 *($ in thousands)*	**2021**	2020 (1)
Salaries and short-term incentives (2)	**$ 4,208**	$ 4,142
Pension (3)	**32**	41
Long-term incentives (4)	**3,306**	3,043
All other compensation and benefits (5)	**737**	502
Total	**$ 8,283**	$ 7,728

(1) In FY2020, the NEOs consisted of the President and CEO; Senior Advisor to the CEO (former CFO); CFO; Senior EVP, ATB Business, and CEO, AltaCorp (now ATB Capital Markets); Chief Experience Officer; and Executive Vice President, EFS.
(2) Salaries and STIs consist of all regular base pay earned by NEOs and Board of Directors' compensation and other direct cash remuneration. STI plan pay for NEOs is also included and is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.
(3) Pension includes the annual compensatory value from the FPP for NEOs, based on employer contributions.
(4) LTIs include the grants awarded to NEOs for the fiscal year. Payment of the grants is deferred for three fiscal years and will include appreciation or depreciation annually based on ATB's long-term RAROC performance and depends on the NEO's continued employment with ATB or the terms of their employment agreement.
(5) All other compensation may include the following for NEOs: perquisites, HCSA credits, executive health benefit, personal tax advice, relocation benefit, retention bonus, employer contributions to an RRSP and an unfunded supplementary pension plan operating on a defined-contribution basis (DC SERP) within the CEO Pension Plan, and employer contributions to the NSP. ATB makes a notional contribution under the NSP for any annual pension amounts that exceed allowable maximums under the *Income Tax Act*. The NSP is a non-registered plan that provides notional DC benefits that cannot be provided within the DC plan due to income tax restrictions.

22 Commitments, Guarantees, and Contingent Liabilities

Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide clients with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these 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 client cannot meet its financial or contractual performance obligations. In the event of a call on such commitments, ATB has recourse against the client.

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 as some asset or service) 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 client.

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 $11.4 billion (2020: $11.5 billion). For demand facilities, ATB considers the undrawn portion to represent a commitment to the client; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. Credit facilities are contracted for a limited period of usually less than one year and may expire or terminate without being drawn upon. The contractual amounts of all such credit instruments are outlined in the table below:

As at March 31 *($ in thousands)*	**2021**	2020
Loan guarantees and standby letters of credit	**$1,154,472**	$ 488,885
Commitments to extend credit	**18,395,011**	17,617,065
Total	**$ 19,549,483**	$ 18,105,950

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, which is outlined in the following table:

As at March 31 *($ in thousands)*	**2021**	2020
Assets pledged to:		
Bank of Canada (1)	**$ 439,282**	$ 6,023,653
Clearing and Depository Services Inc.	**16,000**	16,000
Total	**$ 455,282**	$ 6,039,653

(1) The decrease is due to relief provided by the Bank of Canada at the beginning of the pandemic that allowed 100% of non-mortgage loan portfolios to be pledged as collateral. As at March 31, 2021, the permitted amount reverted back to 20%.

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (See Notes 10 and 15.)

Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies.

ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the consolidated statement of financial position in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability of these actions and proceedings to be material.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and finance leases for buildings and equipment. The expected payments for such obligations for each of the next five fiscal years and thereafter are outlined in the following table:

As at March 31 *($ in thousands)*	**2021**	2020
2021	**$ -**	$ 84,927
2022	**123,398**	43,522
2023	**66,442**	25,192
2024	**34,329**	19,120
2025	**12,259**	11,553
2026	**10,541**	10,618
Thereafter	**39,494**	33,723
Total	**$ 286,463**	$ 228,655

Lease Commitments

The lease payments required under ATB's leases are as follows:

As at March 31 *($ in thousands)*	**2021**	2020
Lease payments		
Not later than 1 year	**$ 38,130**	$ 40,313
Later than 1 year but not later than 5 years	**98,771**	106,279
Later than 5 years	**82,461**	111,705
Total lease payments	**$ 219,362**	$ 258,297
Less: charges not yet due	**48,028**	63,110
Total lease commitments	**$ 171,334**	$ 195,187

$10.8 million (2020: $11.5 million) was recorded for interest expense to equipment, including depreciation in the consolidated statement of income for our lease liabilities. The total cash outflow for leases this year was $38.0 million (2020: $38.0 million).

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 NII will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect NII while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

	Term to maturity/repricing								
As at March 31, 2021 *($ in thousands)*	**Fixed rate within 3 months**	**Floating rate within 3 months**	**Within 3 months**	**3 to 12 months**	**Total within 1 year**	**1 to 5 years**	**Over 5 years**	**Non-interest-rate-sensitive**	**Total**
Assets									
Cash resources and securities	**$ -**	**$ 8,478,557**	**$ 8,478,557**	**$ -**	**$ 8,478,557**	**$ -**	**$ -**	**$ 181,124**	**$ 8,659,681**
Loans	**7,435,633**	**18,358,390**	**25,794,023**	**5,081,323**	**30,875,346**	**13,664,366**	**524,691**	**(467,181)**	**44,597,222**
Other assets	**2,498,132**	**-**	**2,498,132**	**-**	**2,498,132**	**-**	**-**	**-**	**2,498,132**
Derivative financial instruments (1)	**600,000**	**6,366,775**	**6,966,775**	**2,165,000**	**9,131,775**	**8,601,750**	**3,246,600**	**-**	**20,980,125**
Total	**$ 10,533,765**	**$ 33,203,722**	**$ 43,737,487**	**$ 7,246,323**	**$ 50,983,810**	**$ 22,266,116**	**$ 3,771,291**	**$ (286,057)**	**$ 76,735,160**
Liabilities and equity									
Deposits	**$ 20,152,909**	**$ 419,064**	**$ 20,571,973**	**$ 4,777,962**	**$ 25,349,935**	**$ 1,924,827**	**$ 6,527**	**$ 10,477,099**	**$ 37,758,388**
Securities sold under repurchase agreements	**14,730**	**-**	**14,730**	**-**	**14,730**	**-**	**-**	**-**	**14,730**
Wholesale borrowings	**1,400,000**	**263,180**	**1,663,180**	**-**	**1,663,180**	**350,000**	**1,500,000**	**(4,361)**	**3,508,819**
Collateralized borrowings	**347,886**	**1,696,915**	**2,044,801**	**350,531**	**2,395,332**	**4,417,500**	**1,102,321**	**15,929**	**7,931,082**
Other liabilities	**2,467,093**	**-**	**2,467,093**	**-**	**2,467,093**	**-**	**-**	**-**	**2,467,093**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,074,923**	**4,074,923**
Derivative financial instruments (1)	**515,000**	**14,613,350**	**15,128,350**	**1,800,000**	**16,928,350**	**2,678,775**	**1,373,000**	**-**	**20,980,125**
Total	**$ 24,897,618**	**$ 16,992,509**	**$ 41,890,127**	**$ 6,928,493**	**$ 48,818,620**	**$ 9,371,102**	**$ 3,981,848**	**$ 14,563,590**	**$ 76,735,160**
Interest-rate-sensitive gap	**$ (14,363,853)**	**$ 16,211,213**	**$ 1,847,360**	**$ 317,830**	**$ 2,165,190**	**$ 12,895,014**	**$ (210,557)**	**$ (14,849,647)**	
as percentage of assets	**(18.7%)**	**21.1%**	**2.4%**	**0.41%**	**2.8%**	**16.8%**	**(0.27%)**	**(19.4%)**	

(1) Derivative financial instruments are included in this table at the notional amount.

As at March 31, 2020 ($ in thousands)	Fixed-rate within 3 months	Floating rate within 3 months	Within 3 months	3 to 12 months	Total within 1 year	1 to 5 years	Over 5 years	Non-interest-rate-sensitive	Total
	Term to maturity/repricing								
Assets									
Cash resources and securities	$ -	$ 5,824,870	$ 5,824,870	$ -	$ 5,824,870	$ -	$ -	$ 220,228	$ 6,045,098
Loans	7,726,341	20,768,902	28,495,243	5,436,558	33,931,801	12,786,993	622,898	(295,458)	47,046,234
Other assets	2,774,190	-	2,774,190	-	2,774,190	-	-	-	2,774,190
Derivative financial instruments (1)	-	-	9,422,375	3,120,000	12,542,375	8,046,000	3,611,600	-	24,199,975
Total	$ 10,500,531	$ 26,593,772	$ 46,516,678	$ 8,556,558	$ 55,073,236	$ 20,832,993	$ 4,234,498	$ (75,230)	$ 80,065,497
Liabilities and equity									
Deposits	$ 17,921,960	$ 321,605	$ 18,243,565	$ 5,704,072	$ 23,947,637	$ 3,256,995	$ 14,545	$ 8,154,190	$ 35,373,367
Securities sold under repurchase agreements	350,828	-	350,828	-	350,828	-	-	-	350,828
Wholesale borrowings	2,258,550	263,180	2,521,730	-	2,521,730	-	1,850,000	30,437	4,402,167
Collateralized borrowings	368,828	2,334,033	2,702,861	353,141	3,056,002	4,105,587	1,404,043	(20,540)	8,545,092
Other liabilities	3,118,540	-	3,118,540	-	3,118,540	-	-	(5,581)	3,112,959
Equity	-	-	-	-	-	-	-	4,081,109	4,081,109
Derivative financial instruments (1)	-	-	17,004,200	1,695,000	18,699,200	4,263,275	1,237,500	-	24,199,975
Total	$ 24,018,706	$ 2,918,818	$ 43,941,724	$ 7,752,213	$ 51,693,937	$ 11,625,857	$ 4,506,088	$ 12,239,615	$ 80,065,497
Interest-rate-sensitive gap	$ (13,518,175)	$ 23,674,954	$ 2,574,954	$ 804,345	$ 3,379,299	$ 9,207,136	$ (271,590)	$ (12,314,845)	
as percentage of assets	(16.90%)	29.6%	3.2%	1.0%	4.2%	11.5%	(0.34%)	(15.40%)	

(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:

As at March 31, 2021	**Within 3 months**	**3 to 12 months**	**Total within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Total assets	**2.2%**	**2.5%**	**2.3%**	**2.6%**	**2.3%**	**2.4%**
Total liabilities and equity	**0.5%**	**1.1%**	**0.6%**	**1.0%**	**2.1%**	**0.8%**
Interest-rate-sensitive gap	**1.7%**	**1.4%**	**1.7%**	**1.6%**	**0.2%**	**1.6%**

As at March 31, 2020	Within 3 months	3 to 12 months	Total within 1 year	1 to 5 years	Over 5 years	Total
Total assets	2.6%	2.7%	2.7%	3.0%	2.5%	2.7%
Total liabilities and equity	1.3%	1.7%	1.3%	1.4%	2.2%	1.4%
Interest-rate-sensitive gap	1.3%	1.0%	1.4%	1.6%	0.3%	1.3%

Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100- and 200-basis-point increase and decrease, respectively, in interest rates on ATB's NI:

As at March 31 *($ in thousands)*	**2021**	2020
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	**$ 26,034**	$ 38,842
200 basis points	**49,859**	74,367
Decrease in interest rates of:		
100 basis points (1) (2)	**171**	(5,556)
200 basis points (1) (2)	**(30,047)**	46,617

(1) Certain aspects of the decrease in interest rate scenarios are constrained by interest rate floors when appropriate.
(2) The result is positive as interest rate floors exist with the lower prime and overnight rates.

The potential impact of a 100- and 200-basis-point increase is well within our interest-rate-risk-management policy.

24 Achievement Notes

ATB sells principal-at-risk achievement notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Wealth brand name. Under this plan, eligible employees could purchase a 25-year note with a value linked to the fair-market value of certain ATB subsidiaries, namely ATB Investment Management Inc, ATB Securities Inc. and ATB Insurance Advisors Inc. 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:

- Receive a cash payment at maturity representing the then-current value of the note;
- Submit a request to sell notes during the annual transaction window (subject to a three-year vesting period and additional restrictions on ATB Wealth executives); and
- Receive cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, a designated affiliate of ATB has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair-market value of the ATB subsidiaries specified above decreases, that the note-holder will lose some or all of the original investment. There is no public market for these notes, and the valuation of the ATB subsidiaries specified above is based on a model prepared by an external consultant.

During the year, ATB issued $3.0 million (2020: $3.6 million) of these notes, which are recorded in other liabilities in the consolidated statement of financial position. During the current year, $8.6 million (2020: $6.5 million) of the notes were redeemed. Expense of $2.7 million (2020: $9.1 million income) was recognized during the year to reflect the increase in achievement notes outstanding and in the fair value of the notes based on their valuation as at March 31, 2021. As at March 31, 2021, the liability for these notes was $58.5 million (2020: $55.2 million). During the year, $4.0 million (2020: $4.9 million) in distribution payments were accrued for payment to achievement-note-holders.

25 Capital Management

ATB measures and reports capital adequacy to ensure we meet the minimum levels set out by our regulator, the ASFI, while supporting the continued growth of our business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *ATB Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the Minister, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets. Risk weights are established for various on- and off-balance-sheet assets according to the degree of credit risk.

Tier 1 capital consists of retained earnings, and Tier 2 capital consists of eligible portions of wholesale borrowings, the collective allowance for loan losses, and notional capital. Wholesale borrowings became eligible as Tier 2 capital as of December 2015 as a result of an amendment to the capital requirements guideline. Effective March 31, 2020, the limit was increased by $2.0 billion to $9.0 billion. Effective March 30, 2009, $600 million of notional capital was made available to ATB. This amount reduces by 25% of NI each quarter. Effective April 1, 2017, software and other intangibles were deducted from total capital.

As at March 31, 2021, ATB has exceeded the total capital requirements and Tier 1 capital requirement of the *Capital Requirements* guideline.

As at March 31 *($ in thousands)*	**2021**	2020
Tier 1 capital		
Retained earnings	**$ 3,961,408**	$ 3,752,651
Tier 2 capital		
Eligible portions of:		
Wholesale borrowings	**1,876,866**	2,018,480
Collective allowance for loan losses	**319,262**	315,453
Notional capital	**22,086**	74,276
Total Tier 2 capital	**$ 2,218,214**	$ 2,408,209
Deductions from capital		
Software and other intangibles	**282,708**	308,819
Total capital	**$ 5,896,914**	$ 5,852,041
Total risk-weighted assets	**$ 36,487,057**	$ 38,803,887
Risk-weighted capital ratios		
Tier 1 capital ratio	**10.9%**	9.7%
Total capital ratio	**16.2%**	15.1%

26 Business Combinations

Significant Acquisitions

ATB Capital Markets Inc.

On January 2, 2018, ATB acquired 100% of the voting shares of ATB Capital Markets Inc., a full-service brokerage firm that provides advisory and institutional financial services. The acquisition, which required no cash consideration, was made possible by ATB Capital Markets Inc. repurchasing and extinguishing the remaining outstanding voting shares. Effectively, ATB's total ownership in ATB Capital Markets Inc. increased from 29.7% to 56.8% at acquisition and has been accounted for using the acquisition method. Effective March 31, 2020, ATB purchased all of the employee-owned Class B shares in ATB Capital Markets Inc. As such, ATB's total ownership increased to 100% from 57.6% this time last year. (See Note 28 for the operating revenue and NI earned by ATB Capital Markets Inc. since acquisition. No acquisition-related costs were incurred. ATB expects the full amount of the acquired receivables to be collected.)

The following table summarizes the information relating to ATB's NCIs:

As at March 31 *($ in thousands)*	**2021**	2020
Non-controlling interests percentage	**0.0%**	0.0%
Net assets	**$ 8,936**	$ 1,341
Net assets attributable to non-controlling interests	**-**	-
Operating revenue	**$ 47,938**	$ 19,920
Net income (loss)	**8,167**	(1,360)
Other comprehensive income	**-**	-
Total comprehensive income (loss)	**$ 8,167**	$ (1,360)
Net loss allocated to non-controlling interests	**$ -**	$ (1,442)
Other comprehensive income allocated to non-controlling interests	**-**	-
Cash flows used in operating activities	**$ -**	$ -
Cash flows used in investing activities	**-**	-
Cash flows provided by financing activities	**-**	-
Net decrease in cash	**$ -**	$ -

Grow Technologies Inc.

On November 5, 2019, ATB acquired substantially all of the assets of Grow Technologies Inc. (Grow). This fintech company provides a software-as-a-service solution and tools to aggregate financial data and allow retail and business clients to monitor their financial health. The acquisition cost was $20.0 million, with $1.0 million held in trust. In November 2020, that $1.0 million was paid. No acquisition-related costs were incurred.

The following table summarizes the consideration paid, assets acquired, and residual goodwill based on the finalized purchase price allocation. The fair values are measured based on observable market inputs, which include recent market transactions of comparable companies.

As at November 5, 2019 *($ in thousands)*	
Consideration paid	**$ 20,000**
Assets acquired	
Property and equipment	**55**
Software and other intangibles	**13,100**
Goodwill	**$ 6,845**

27 Revenue

Disaggregation of Revenue

The following tables disaggregate fee and commission income by fee types and AoE and reflect the nature and amount of revenue collected in accordance with IFRS 15. (See Note 28 for more on ATB's segmented information.)

($ in thousands)	**ATB Everyday Financial Services**	**ATB Business (1)**	**ATB Wealth**	**Strategic support units**	**Total**
March 31, 2021					
Wealth management	**$ -**	**$ -**	**$ 238,544**	**$ (1,479)**	**$ 237,065**
Service charges	**47,256**	**23,495**	**786**	**406**	**71,943**
Card fees	**32,471**	**28,029**	**795**	**50**	**61,345**
Credit fees	**392**	**48,908**	**18**	**1**	**49,319**
Insurance	**21,629**	**2,219**	**-**	**-**	**23,848**
Capital markets revenue	**-**	**49,060**	**-**	**-**	**49,060**
Sundry	**61**	**9,511**	**2,621**	**(927)**	**11,266**
Total revenue from contracts with customers	**$ 101,809**	**$ 161,222**	**$ 242,764**	**$ (1,949)**	**$ 503,846**
Other non-contract fee income	**6,051**	**67,144**	**122**	**22,217**	**95,534**
Total other income	**$ 107,860**	**$ 228,366**	**$ 242,886**	**$ 20,268**	**$ 599,380**

($ in thousands)	ATB Everyday Financial Services	ATB Business (1)	ATB Wealth	Strategic support units	Total
March 31, 2020					
Wealth management	$ -	$ -	$ 223,183	$ (1,752)	$ 221,431
Service charges	53,026	21,996	712	(271)	75,463
Card fees	31,062	32,761	1,243	37	65,103
Credit fees	267	44,583	10	5	44,865
Insurance	21,658	3,330	2	(3)	24,987
Capital markets revenue	-	20,275	-	-	20,275
Sundry	7	3,338	2,687	(32)	6,000
Total revenue from contracts with customers	$ 106,020	$ 126,283	$ 227,837	$ (2,016)	$ 458,124
Other non-contract fee income	7,546	46,485	120	20,354	74,505
Total other income	$ 113,566	$ 172,768	$ 227,957	$ 18,338	$ 532,629

(1) Effective April 1, 2020, ATB Business includes Business and Agriculture (B&Ag), CFS, and ATB Capital Markets Inc.

28 Segmented Information

ATB has organized its operations and activities around the following three AoEs that differ in products and services offered:

- **ATB Everyday Financial Services** provides financial services to individuals and small businesses through our branch, agency, Client Care, Brightside, and ABM networks.
- **ATB Business**, created April 1, 2020, merged three channels into one operating model to provide more value to our business clients. It provides financial advisory services to medium and large businesses, corporations, and agricultural clients.
- **ATB Wealth** provides investment advisory, insurance solutions, private banking, and institutional portfolio management solutions.

ATB's SSUs provide company-wide expertise and support to our AoEs in being client-obsessed and providing and delivering the best experience, products, and services to our clients. The SSUs comprise business units of a corporate nature, including finance, risk management, technology, treasury operations, HR, internal assurance, and other functions.

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 we disclose in the notes to the statements. Since these AoEs align with ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

NII is attributed to each AoE according to ATB's internal FTP system: assets earn NII to the extent that external revenues exceed internal FTP expense, and liabilities earn NII to the extent that internal FTP revenues exceed external interest expenses. LLP is allocated based on the loans the AoE has issued and is determined based on the methodology outlined in Notes 2 and 9.

Direct expenses are attributed across AoEs as incurred. Certain indirect expenses are allocated to ATB Wealth and ATB Capital Markets Inc. on the basis of service-level agreements. Other indirect costs are allocated between the reporting segments using indirect allocation methods that incorporate financial and activity-based cost drivers. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under SSUs.

($ in thousands)	**ATB Everyday Financial Services**	**ATB Business (1)**	**ATB Wealth**	**Strategic support units**	**Total**
March 31, 2021					
Net interest income	**$ 491,522**	**$ 635,854**	**$ 19,847**	**$ 31,344**	**$ 1,178,567**
Other income	**107,860**	**228,366**	**242,886**	**20,268**	**599,380**
Total operating revenue	**599,382**	**864,220**	**262,733**	**51,612**	**1,777,947**
Provision for loan losses	**64,871**	**201,787**	**4,427**	**-**	**271,085**
Non-interest expense (2)	**535,472**	**402,977**	**232,072**	**62,932**	**1,233,453**
(Loss) income before payment in lieu of tax	**(961)**	**259,456**	**26,234**	**(11,320)**	**273,409**
(Recovery of) payment in lieu of tax (3)	**(221)**	**59,675**	**6,034**	**(2,604)**	**62,884**
Net (loss) income	**$ (740)**	**$ 199,781**	**$ 20,200**	**$ (8,716)**	**$ 210,525**
Total assets	**$ 28,102,116**	**$ 23,042,814**	**$ 1,519,727**	**$ 3,090,378**	**$ 55,755,035**
Total liabilities	**17,452,570**	**18,793,198**	**1,557,216**	**13,877,128**	**51,680,112**

($ in thousands)	ATB Everyday Financial Services	ATB Business (1)	ATB Wealth	Strategic support units	Total
March 31, 2020					
Net interest income	$ 489,800	$ 609,963	$ 21,386	$ 73,040	$ 1,194,189
Other income	113,566	172,692	227,957	18,414	532,629
Total operating revenue	603,366	782,655	249,343	91,454	1,726,818
Provision for loan losses	84,638	298,465	2,877	-	385,980
Non-interest expense (2)	555,621	387,277	229,622	35,735	1,208,255
(Loss) income before payment in lieu of tax	(36,893)	96,913	16,844	55,719	132,583
(Recovery of) payment in lieu of tax	-	(171)	13,944	16,902	30,675
Net (loss) income	$ (36,893)	$ 97,084	$ 2,900	$ 38,817	$ 101,908
Total assets	$ 25,582,159	$ 22,738,457	$ 1,097,635	$ 6,447,271	$ 55,865,522
Total liabilities	15,730,549	18,513,457	1,128,263	16,412,144	51,784,413

(1) Effective April 1, 2020, ATB Business includes B&Ag, CFS, and ATB Capital Markets Inc.
(2) Certain costs are allocated from the SSUs to the AoEs. The allocation method, revised annually, may create fluctuations in ATB's segmented results.
(3) Effective April 1, 2020, the NI that ATB Capital Markets Inc. earned in Canada is subject to PILOT due to ATB's purchase of all employee-owned Class B shares on March 31, 2020, thereby attaining 100% ownership. Effective April 1, 2020, the methodology to calculate ATB's PILOT is now allocated to each AoE based on 23% of the AoE's NI before PILOT.

29 Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

ATB Insurance Advisors Inc.

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of ATB Insurance Advisors Inc.

Report on the Financial Statements

Opinion

I have audited the financial statements of ATB Insurance Advisors Inc., which comprise the statement of financial position as at March 31, 2021, and the statements of changes in deficiency, operations and comprehensive income, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATB Insurance Advisors Inc. as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of ATB Insurance Advisors Inc. in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The financial statements of ATB Insurance Advisors Inc. are included in the *Annual Report of the Ministry of Treasury Board and Finance* that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to ATB Insurance Advisors Inc., but does not include the financial statements and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing ATB Insurance Advisors Inc.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ATB Insurance Advisors Inc.'s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 ATB Insurance Advisors Inc.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ATB Insurance Advisors Inc.'s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit

evidence obtained up to the date of my auditor's report. However, future events or conditions may cause ATB Insurance Advisors Inc. to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie, FCPA, FCMA, ICD.D
Auditor General

May 17, 2021
Edmonton, Alberta

ATB Insurance Advisors Inc.
Statement of Financial Position
As at March 31, 2021 ($ thousands)

	March 31, 2021 $	March 31, 2020 $
ASSETS		
Current assets		
Cash	15	45
Accounts receivable (note 3 ii)	4	34
	19	79
Non-current assets		
Intangible assets (note 6)	195	181
	214	260
LIABILITIES		
Current liabilities		
Accrued liabilities	7	57
Contract liabilities (note 13(ii))	44	38
Incentive and other compensation payable (note 11)	5	4
Due to affiliates (note 4)	-	7
Due to ATB (note 5)	4,209	4,436
	4,265	4,542
Long-term liabilities		
Accrued liabilities	16	-
Contract liabilities (note 13(ii))	222	176
	4,503	4,718
SHAREHOLDER DEFICIENCY		
Share capital (note 7)	5	5
Deficit	(4,294)	(4,463)
	(4,289)	(4,458)
	214	260

The accompanying notes are an integral part of these financial statements

Approved by the Board of Directors

Original signed by
Director

Original signed by
Chief Financial Officer

ATB Insurance Advisors Inc.

Statement of Change in Deficiency

For the year ended March 31, 2021 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Deficit $	Shareholder Deficiency $
Balance at March 31, 2019	100	5	(4,623)	(4,618)
Net income and comprehensive income	-	-	160	160
Balance at March 31, 2020	100	5	(4,463)	(4,458)
Balance at March 31, 2020	100	5	(4,463)	(4,458)
Net income and comprehensive income	-	-	169	169
Balance at March 31, 2021	100	5	(4,294)	(4,289)

The accompanying notes are an integral part of these financial statements

ATB Insurance Advisors Inc.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2021 ($ thousands)

	March 31, 2021 $	March 31, 2020 $
Revenue (note 13)		
Insurance commissions	518	602
Administration and selling expenses (note 10)		
Interest expense	105	177
Salaries and employee benefits	91	79
Referral fees	27	27
Amortization expense (note 6)	27	25
Intercorporate management fees (note 9)	17	74
IT Infrastructure and services	14	-
General and administrative expenses	9	8
Professional fees	4	-
Incentive compensation expenses (note 11)	5	4
	299	394
Net income before payment in lieu of tax	219	208
Payment in lieu of tax ("PILOT") (note 5)	50	48
Net income and comprehensive income	169	160

The accompanying notes are an integral part of these financial statements

ATB Insurance Advisors Inc.

Statement of Cash Flows

For the year ended March 31, 2021 ($ thousands)

Cash provided by (used in)	March 31, 2021 $	March 31, 2020 $
Operating activities		
Net income and comprehensive income	169	160
Items not affecting cash:		
Amortization expense	27	25
Net operating activities	196	185
Net change in non-cash working capital items		
Accounts receivable	30	14
Accrued liabilities	(34)	(35)
Incentive and other compensation payable	1	(2)
Contract liabilities	52	99
Due to affiliates	(7)	18
Due to ATB	2	22
Change in non-cash working capital items	44	116
Net cash from operating activities	240	301
Investing activities		
Purchases of intangible assets	(41)	(30)
Net cash used in investing activities	(41)	(30)
Financing activities		
Repayment of advances from ATB	(229)	(285)
Net cash used in financing activities	(229)	(285)
Net change in cash	(30)	(14)
Cash at beginning of period	45	59
Cash at end of period	15	45
Supplementary information		
Interest paid	105	177
PILOT paid	48	26

The accompanying notes are an integral part of these financial statements

ATB Insurance Advisors Inc.

Notes to the Financial Statements

For the year ended March 31, 2021 ($ thousands)

1. Nature of Operations and Economic Dependence

ATB Insurance Advisors Inc. (“ATBIA” or the “Company”) is a wholly-owned subsidiary of ATB Financial (“ATB”) and is affiliated with ATB Investment Management Inc. (“ATBIM”), ATB Securities Inc. (“ATBSI”), and ATB Capital Markets Inc. (“ATBCM”). ATBCM was formerly named AltaCorp Capital Inc. ATBIA, ATBIM, and ATBSI operate under the trademark ATB Wealth, which also includes certain private banking operations within ATB. ATBIM, ATBSI and ATBIA may be referred to collectively as ATB Investor Services (“ATBIS”), the trademark this group of companies previously operated under.

ATBIA was established to provide personal insurance products including, but not limited to, life insurance, disability insurance and critical illness insurance. As a provincial Crown corporation, ATBIA is exempt from income tax; however, it is subject to payment in lieu of tax (“PILOT”) as described in note 5.

The continuing operations of ATBIA are dependent upon ATB’s ongoing financial support (note 5).

ATBIA has entered into a direct contractual relationship with an insurance distributor and broker (the managing general agent, or “MGA”) to provide sales management and brokerage operation services, and generally oversee ATBIA insurance operations. ATBIA also engages individual, licensed insurance specialists (“ATBIA Advisors”) to conduct the insurance business managed by the MGA. The ATBIA Advisors, who are independent contractors, are responsible for determining the manner and means by which they provide services to ATBIA clients. ATBIA must also enter into separate contractual relationships with insurance carriers that offer policies. These agreements include reference to ATBIA’s relationship with the MGA. One of these insurance carriers is the parent company of the MGA.

The address of the Company’s registered office is:
2100, 10020 - 100 Street
Edmonton, Alberta T5J 0N3

These financial statements were approved by the Board of Directors on May 17, 2021.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The policies applied in these financial statements are based on IFRS issued and outstanding as of March 31, 2021.

These financial statements are presented in Canadian dollars, which is ATBIA’s functional currency.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets and liabilities at fair value through profit and loss.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

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 assets and liabilities, and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenue and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIA's critical accounting estimates under IFRS:

i) Amortization of Intangible Assets

Intangible assets are amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience, and take into consideration existing long-term agreements and contracts. While these useful life estimates are reviewed on a regular basis and amortization calculations revised accordingly, actual lives may differ from the estimates.

ii) Contract Liability Related to the Lapse of Insurance Policies

Insurance policies that have been in force for less than two years are typically subject to a chargeback by the insurer if the policy lapses or is cancelled. The provision for lapse is estimated using historical internal lapse rates.

As at March 31, 2021, management had a provision for lapsed insurance policies of $19 (March 31, 2020 - $24) representing 5% of insurance commissions earned during the year relating to the placement of new policies (March 31, 2020 - 5%). This provision is recorded as a reduction to insurance commission revenue and is presented as a contract liability in the statement of financial position. See note 2 g) and note 13 ii).

iii) Contract Liability Related to Unsatisfied Performance Obligations to Customers

In its contracts with customers, ATBIA has an ongoing performance obligation to service policyholders. Under the agreement with the MGA effective March 1, 2018, ATBIA only receives compensation upfront, so management must estimate how much of this compensation to defer and recognize as revenue in future periods as these performance obligations are satisfied over time. See note 2 g) and note 13 ii).

During the year ended March 31, 2021, management recorded deferred revenue of $196 associated with new policies placed under the new agreement with the MGA (March 31, 2020 - $115), and brought $25 of cumulative deferred amounts back into revenue (March 31, 2020 - $14). With respect to estimated future performance obligations, as at March 31, 2021, the Company has recorded $29 (March 31, 2020 - $21) within current contract liabilities and $218 (March 31, 2020 - $169) within long-term contract liabilities.

c. Cash

Cash consists of cash on deposit held with ATB.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

d. Intangible Assets

Intangible assets represent the purchase by the Company of the insurance businesses of ATBIA Advisors when arrangements with those advisors cease. After initial recognition, these purchases are carried at cost less accumulated amortization, and less provisions for impairment, if any. Balances are amortized on a straight-line basis over their estimated useful lives of 10 years.

Upon an ATBIA Advisor's exit, a partial, upfront payment is made to the ATBIA Advisor, with the remaining amount payable two years later. This amount is initially recorded as a long-term accrued liability on the statement of financial position.

e. Impairment of Intangible Assets

Intangible assets are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 level for which there are separately identifiable cash inflows. There were no indicators of impairment for the years ended March 31, 2021 or 2020.

f. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company has not recognized any provisions at March 31, 2021 (March 31, 2020 - $nil).

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 an outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote (note 14).

g. Revenue Recognition

As prescribed by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), revenue is recognized when control of a good or service transfers to a customer. IFRS 15 includes a five-step recognition and measurement framework that ATBIA follows in order to determine when to recognize revenue:

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

i. Identify the contract(s) with a customer
ii. Identify the performance obligation(s) in the contract
iii. Determine the transaction price
iv. Allocate the transaction price to the performance obligation(s)
v. Recognize revenue when (or as) ATBIA satisfies a performance obligation

ATBIA acts as an agent on behalf of both the insurance carriers and the MGA. As agents of the insurance carriers, it is the MGA's and ATBIA's performance obligation to arrange for other parties to provide services to policyholders who are the customers of the insurance carriers. These services may be provided directly by either the MGA, ATBIA or the ATBIA Advisors.

Management identified two primary, broadly focused performance obligations to the customers of the insurance carriers, which are either explicitly stated in ATBIA's contracts with either the insurance carriers, the MGA or the ATBIA Advisors, or are implied by industry practice and the expectations of customers:

1. To sell insurance and financial services products to customers, by recruiting, training and managing a team of licensed insurance agents. ATBIA satisfies this performance obligation primarily by arranging for the services to be provided by the MGA and/or the ATBIA Advisors.

2. To provide ongoing service to policyholders while the policy remains in force. ATBIA satisfies this performance obligation primarily by arranging for the services to be provided by the ATBIA Advisors, but also satisfies this performance obligation by providing branding, technology and infrastructure support to the ATBIA Advisors or to the MGA as it manages the ATBIA Advisors. In certain instances, services originally provided directly by the ATBIA Advisors may be subsequently provided directly by ATBIA, if the original ATBIA Advisor exits its contract with ATBIA.

The application of IFRS 15 allows for a practical expedient that permits individual contracts with customers that have similar characteristics to be managed on a portfolio basis, if the result would not differ materially from applying the standard to individual contracts within the portfolio. Management identified two portfolios of contract types with customers. For one portfolio, the obligation to provide ongoing service to policyholders is assigned primarily to the ATBIA Advisor; for the other portfolio, the obligation to provide ongoing service to policyholders has been assumed by ATBIA directly, where the original ATBIA Advisor has exited its contract with ATBIA. Management determined that this distinction required the latter portfolio to be accounted for as a separate portfolio of contracts because distinct services are added to ATBIA's performance obligation and because its share of the allocation of transaction price increases (as specified in the contractual arrangements with the MGA and the ATBIA Advisors).

Portfolio 1: New policies where the ATBIA Advisor directly services the policyholder

The total transaction price for these contracts comprises commission compensation received from insurance carriers, which includes first year compensation and monthly or annual renewal commissions starting in the second year of a policy's term. First year compensation comprises a significant portion of the total transaction price over the term of the insurance policy. First year compensation is receivable when the policy has been successfully placed with the insurance carrier and the first year's premiums have been paid by the policyholder. Renewal commissions are receivable as subsequent year's premiums are received from the policyholder.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

ATBIA recognizes new policy revenue at a point in time when first year compensation becomes receivable, which coincides with ATBIA satisfying the first performance obligation. ATBIA recognizes renewal commission revenue over time in each period in which it makes ongoing services available to policyholders. With respect to the second performance obligation, the various activities that ATBIA or the ATBIA Advisors may perform in the ongoing service of policyholders could be performed at any time over the term of the policy.

For policies placed prior to March 1, 2018 (the effective date of ATBIA's revised agreement with the MGA and the ATBIA Advisors), ATBIA receives a fixed percentage of total first year compensation payable under contracts with insurance carriers to all of ATBIA, the MGA and the ATBIA Advisors combined, and the same percentage of ongoing renewal commissions. ATBIA allocates its portion of first year compensation to the satisfaction of the first performance obligation and its portion of ongoing renewal commissions to each period's satisfaction of the second performance obligation.

For policies placed after March 1, 2018, ATBIA receives only a percentage of first year compensation. In order to allocate a portion of total compensation received to each subsequent period's satisfaction of the second performance obligation, ATBIA defers recognition of a portion of the first year compensation received. This portion is derived from a series of significant estimates and judgments made by management, based on ongoing analysis of its portfolio of contracts with customers. These significant estimates and judgments include:

Significant estimated factors	Year ended March 31, 2021	Year ended March 31, 2020
Average first year compensation as a percent of annual policy premium	42.5%	40%
Average renewal commission as percent of annual policy premium	3.75%	4.00%
Portion of first year compensation received to be recognized annually for satisfaction of second performance obligation	2.4%	2.5%
Average term of contract	10 years	10 years
Percentage of first year compensation to defer for future periods' satisfaction of second performance obligation	24%	25%

The deferral of first year compensation and the subsequent satisfaction of future years' performance obligations results in a contract liability (note 13 iii)).

Portfolio 2: Existing policies where ATBIA directly services the policyholder

The total transaction price for these contracts comprises the incremental portion of the renewal commission that is receivable by ATBIA, based on the terms in the agreement between ATBIA, the MGA and the ATBIA Advisors. This portion increased as a result of the amendment to the agreement effective March 1, 2018.

ATBIA recognizes renewal commission revenue from these contracts over time in each period in which it makes ongoing services available to policyholders. As such, ATBIA may recognize revenue from the same policy under both contract portfolio types.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Variable consideration

The compensation ATBIA receives is variable in three aspects.

First, ATBIA may have to return all or a portion of first year compensation if the customer cancels the policy or allows it to lapse by not paying premiums. As a result, a portion of first year compensation received is deferred until this right of the insurance carriers to impose a chargeback of commissions paid expires. This deferral of first year compensation results in a contract liability (note 13 ii)). Revenue is subsequently recognized on a straight-line basis over the subsequent 24-month period. This portion of deferred revenue is derived from a series of significant estimates and judgments made by management, based on ongoing analysis of its portfolio of contracts with customers. These significant estimates and judgments include:

Significant estimated factors	Year ended March 31, 2021	Year ended March 31, 2020
Average duration of chargeback period	2 years	2 years
Average lapse rate (chargeback as a percent of total first year compensation received)	5.00%	5.00%

Second, ATBIA will not receive any share of ongoing renewal commissions should the customer cancel the policy or allow it to lapse.

Third, ATBIA receives additional revenue from the MGA and certain insurance carriers with respect to the sale of new policies when certain thresholds for aggregate annual production by the ATBIA Advisors are exceeded. This compensation is recognized at the point in time when the thresholds have been met. As such, this compensation is excluded from amounts deferred.

h. Foreign Exchange

Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenue and expenses are translated at the exchange rates prevailing at the respective transaction dates. During the years ended March 31, 2021 and March 31, 2020, ATBIA did not have any transactions denominated in foreign currencies.

i. Employee Benefits

ATBIA provides benefits to employees through the following plans:

i) Defined Contribution Plan

ATBIA provides its non-union employees with a registered defined contribution pension plan. Contributions to the plan are expensed as related salaries or incentive compensation are earned, and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

ii) Short-Term Employee Benefits

Short-term employee benefits, such as paid absences and other benefits including any related payroll taxes, are accounted for on an accrual basis over the period in which the employees provide the related services, and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump-sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Amounts payable under variable compensation plans at the end of the year are recorded in incentive and other compensation payable.

j. 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, eligible employees of the Company may choose to purchase Achievement Notes issued by ATB (note 10) with a value linked to the fair market value of certain ATB subsidiaries, including ATBIA. The obligation to settle the notes with employees belongs to ATB, not ATBIA. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted, as the notes are issued to employees at fair value on the grant date.

k. Financial Instruments – Recognition and Measurement

Accounting policies are prescribed by IFRS 9 *Financial Instruments* ("IFRS 9").

Recognition

All financial assets and financial liabilities are initially recognized on the trade date, which is the date that ATBIA becomes a party to the contractual provisions of the financial instrument. ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired, or when the Company transfers the rights to receive the contractual cash flows in a transaction where 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 when the contract is cancelled or has expired.

Classification and Measurement - Financial Assets

Financial assets are classified and measured at amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI"). Classification is based on the Company's business model for managing the specified financial assets, and whether the contractual cash flows of the specified financial asset represents solely payments and interest on the principal amount outstanding (the "SPPI test"). Principal is defined as the fair value of the asset at initial recognition and may change over the asset's life. Interest payments can include consideration for the time value of money as well as for credit and liquidity risks. Financial assets are only reclassified if a significant change in the asset's business model occurs subsequent to initial recognition.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

The classifications of the financial assets of ATBIA are as follows:

Financial Assets	Classification
• Cash	Amortized cost
• Accounts receivable	Amortized cost

Financial assets held primarily to collect contractual cash flows, which are comprised of principal and interest are classified as amortized cost. These assets are initially recognized at fair value – which is the cash consideration to originate or purchase the asset, including any transaction costs – and subsequently measured at amortized cost using the effective interest method.

For financial assets classified as amortized cost with an expected term of less than one year that do not have a significant financing component, IFRS 9 permits a practical expedient permitting initial measurement at the transaction price, which results in the recognition of no interest income under the effective interest method.

Classification and Measurement - Financial Liabilities

Financial liabilities are classified and measured at either FVTPL or amortized cost. Financial liabilities not classified as FVTPL are measured at amortized cost. Financial liabilities are never reclassified.

The classifications of the financial liabilities of ATBIA are as follows:

Financial Liabilities	Classification
• Accrued liabilities	Amortized cost
• Incentive and other compensation payable	Amortized cost
• Due to affiliates	Amortized cost
• Due to ATB	Amortized cost

For all financial liabilities classified as amortized cost, ATBIA initially measures all amounts at the transaction price, which results in the recognition of no interest expense under the effective interest method. As per note 5, amounts due to ATB are due on demand, with no fixed terms for repayment. Interest is paid monthly on the outstanding balance less PILOT payable, and the outstanding balance is paid down if there is excess operating cash.

Impairment of Financial Assets

IFRS 9 incorporates an expected credit loss ("ECL") model for the recognition and measurement of impairments of financial assets measured at amortized cost. The ECL model involves a staged approach, whereby financial assets move through three stages as their credit quality changes. ECL are the weighted-average credits losses with the probability of default as the weight.

The stage of the ECL model dictates how ATBIA measures impairment losses:

- Stage 1: On initial recognition, for financial assets measured at amortized cost where there is not a significant financing component, ATBIA applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable. For all other financial assets measured at amortized cost, ATBIA determines the impairment provision on a 12-month ECL basis. For these calculations, the Company uses a historical-based provision matrix adjusted for forward-looking factors.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

- Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment, and where the overall assessment of credit risk at the reporting date is not still low, ATBIA records an estimate of lifetime ECL.

- Stage 3: For financial assets that have objective evidence of impairment at the reporting date, ATBIA records an estimate of lifetime ECL and recognizes interest revenue on the carrying value of the asset net of the credit allowance.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced, and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBIA may measure impairment on the basis of an instrument's fair value using an observable market price.

As at March 31, 2021 and March 31, 2020, none of the Company's financial assets were in stages 2 or 3 of the impairment model, and the Company applied the simplified approach to all financial assets in Stage 1.

l. Financial Instruments – Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of financial instruments that are short-term in nature is considered to be equal to their carrying value. These items include cash, accounts receivable, accrued liabilities, incentive and other compensation payable, due to affiliates and due to ATB. These fair value estimates are classified as level 2 in the fair value hierarchy described in note 3.

3. Financial Instruments

i) Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

ATBIA has no financial instruments that are recorded at fair value as at March 31, 2021 and 2020.

ii) Financial Risk Management

ATBIA's financial instruments are exposed to a variety of financial risks: market risk, credit risk, and liquidity risk. ATBIA's overall risk management program focuses on the unpredictability of financial and economic markets, and seeks to minimize potential adverse effects on ATBIA's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Interest rate risk: ATBIA is subject to interest rate cash flow risk, as the amount that is due to ATB excluding PILOT (note 5) 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. As at March 31, 2021, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB excluding PILOT would be approximately $42 (March 31, 2020 - $44).

Currency risk: ATBIA does not hold financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Price risk: ATBIA is not exposed to financial market pricing risk as no financial instruments held by the Company will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that a counterparty to a financial asset will default resulting in a financial loss to ATBIA. ATBIA is exposed to credit risk through its cash and accounts receivable balances.

The application of the ECL model (note 2 k)) to the Company's financial assets is described below:

- Cash balances are subject to the impairment requirements of IFRS 9; however, the identified impairment losses were immaterial. All cash is on deposit with ATB, an Alberta Crown Agent, from which management believes the probability of default is remote.

- Accounts receivable are i) due from insurance carriers with which ATBIA places new insurance policies; ii) due from ATBIA Advisors for compensation chargebacks paid on their behalf; or iii) due from the MGA for performance bonuses or compensation chargebacks paid on either ATBIA or ATBIA Advisors' behalf. Amounts due from insurance carriers are paid promptly, unless the amounts are negligible or the insurance carrier is owed by ATBIA for a policy chargeback. Amounts due from ATBIA Advisors are paid down as the advisors generate subsequent commissions with that insurance carrier. The MGA pays the performance bonus annually, subsequent to each year end. Given the low probability of default and a history of negligible actual losses, the provision for ECL for accounts receivable at March 31, 2021 was $nil (March 31, 2020 - $nil).

  Accounts receivable balances consisted of:

	March 31, 2021	March 31, 2020
	$	$
Due from ATBIA Advisors	4	3
Due from insurance carriers	1	4
Due (to) from MGA	(1)	27
	4	34

The Company's maximum credit exposure is $19 (March 31, 2020 - $79) which is the sum of cash, and accounts receivable.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligations and determining whether additional funding is required through its credit facility or parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk that are considered short-term (due on demand or within 30 days), include accrued liabilities, incentive compensation payable, due to affiliates, and due to ATB. The continuing operations of ATBIA are dependent on ATB not calling advances included in due to ATB (Note 5).

4. Due to Affiliates

In the normal course of operations, ATBIA transacts with ATBSI as described in note 10. The amounts that are due to affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges. The amounts due to affiliates are as follows:

	March 31, 2021	March 31, 2020
	$	$
Due to ATBSI	-	7

5. Due to ATB

In the normal course of operations, ATB pays certain expenses on behalf of ATBIA. Additionally, ATB has helped finance ATBIA operations since the inception of the Company. The balance owing to ATB is primarily related to this financing of past operations. ATBIA is reliant on ATB not calling these advances.

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 Payment in lieu of tax ("PILOT") charge to be 23% of ATB's consolidated net income as reported in its audited annual financial statements under IFRS.

For the year ended March 31, 2021, ATBIA accrued and incurred an expense of $50 (March 31, 2020 - $48) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2021.

The net amount due to ATB, less PILOT, is subject to monthly interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2021 was 2.45% (March 31, 2020 – 2.45%).

The amounts due to ATB arising from the transactions described above are:

	March 31, 2021	March 31, 2020
	$	$
Due to ATB - PILOT	50	48
Due to ATB - Other	4,159	4,388
Due to ATB	4,209	4,436

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

6. Intangible Assets

Intangible assets consist exclusively of purchases of ATBIA Advisors' businesses who have ended their relationship with ATBIA.

	March 31, 2021			March 31, 2020		
	Cost	Accumulated Amortization	**Carrying Amount**	Cost	Accumulated Amortization	**Carrying Amount**
	$	$	**$**	$	$	**$**
Balance at beginning of year	264	(83)	**181**	234	(58)	**176**
Additions	41	-	**41**	30	-	**30**
Amortization	-	(27)	**(27)**	-	(25)	**(25)**
Balance at end of year	305	(110)	**195**	264	(83)	**181**

There were no impairments recognized during the year ended March 31, 2021 (March 31, 2020 - $nil).

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, 2021	**March 31, 2020**
Class A common shares #	100	100
Share capital ($ in thousands)	5	5

8. Capital Risk Management and Restrictions

ATBIA's objectives in managing its capital, which is defined as shareholder deficiency and amounts due to ATB, are:

- To safeguard ATBIA's ability to operate as a going concern; and
- To provide financial capacity and flexibility to meet its strategic objectives.

The capital structure of ATBIA is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIA on a monthly basis. If capital decreases, additional contributions or loans from ATB may be requested. Additionally, any repayment of amounts due to ATB is determined based on maintaining optimal levels of capital in the business.

ATBIA works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIA's capital management objectives have not changed over the periods presented.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

9. Intercorporate Management Fees

An intercorporate management fee ("management fee") exists in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic, and supporting costs with ATBIM, ATBIA and the private banking business within ATB ("Private Banking"). The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM, ATBIA and Private Banking according to the proportion of total combined revenue that each generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

10. Related Party Transactions

In the normal course of operations, ATBIA pays referral fees to ATBSI and ATB, and intercorporate management fees to ATBSI. ATB also charges ATBIA for various administrative and selling services, as well as charging interest on amounts owing to ATB. ATBIA does not transact with ATBIM or ATBCM.

Effective April 1, 2020, certain expenses previously charged to ATBIA through the intercorporate management fee by ATBSI are now being allocated directly to ATBIA by ATB.

A summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2021	March 31, 2020
	Administrative and selling expenses		**$**	**$**
ATBSI	Referral fees	Referral fees	27	26
ATBSI	Management fees	Intercorporate management fees	17	74
ATB	IT services and contracts	IT infrastructure and services	13	-
ATB	Professional fees	Professional fees	3	-
ATB	Marketing	General and administrative expenses	7	-
ATB	Employee benefits	Salaries and employee benefits	3	-
ATB	Interest expense and standby fees	Interest expense	105	177
ATB	Transition credit	General and administrative expenses	(1)	-
ATB	Referral fees	Referral fees	-	1
			174	**278**

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2020 (for the year ended March 31, 2021) and April 1, 2019 (for the year ended March 31, 2020). The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under IFRS, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Key management personnel are compensated through ATBSI; therefore, there is no key management compensation recorded in these financial statements. Compensation for key management personnel is captured in the management fee charged by ATBSI. The value of this compensation that was allocated to ATBIA for the year ended March 31, 2021 was $2 (March 31, 2020 - $8).

Employee Achievement Notes

ATB sells Principal-at-Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Wealth brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a value linked to the fair market 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.

The rebranding and reorganization of ATBIS into ATB Wealth did not change the manner in which Achievement Notes are valued. ATB Wealth's results are a combination of ATBIA, ATBIM, ATBSI and Private Banking. These combined results are published in ATB's quarterly and annual reporting. The basis of reporting for ATB Wealth is different from the legal entity results of ATBIA, ATBIM and ATBSI from which the Achievement Note valuation is derived.

Each note holder is entitled to:

- a cash payment at maturity representing the then-current value of their note;
- submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATB Wealth executives); and,
- cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is a risk, if the valuation decreases, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the valuation is based on a model prepared by an external consultant updated annually.

The liability recorded by ATB with regards to the Achievement Notes owned by the employees of ATBIA, or previously allocated to ATBIA as part of shared management services, is as follows:

	March 31, 2021	March 31, 2020
	$	$
Liability at beginning of year	345	396
Redemptions	(4)	-
Appreciation and vesting	83	(51)
Liability at end of year	**424**	**345**

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

11. Employee Benefits

i) Defined Contribution Plan

ATBIA provides future benefits to employees through defined contribution plans. All defined contribution plan members are in a flexible pension plan, which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, or to an RRSP, RESP, or ATB mortgage. For the year ended March 31, 2021, expenses related to the plan, which are recorded in salaries and employee benefits, were $9 (March 31, 2020 - $3).

ii) Incentive Compensation Plan

As at March 31, 2021, the Company had accrued and expensed $5 (March 31, 2020 - $4) for its variable compensation plan related to the achievement of goals and performance targets.

12. Credit Facility

ATBIA has access to a $50 unsecured operating loan facility with ATB (March 31, 2020 - $50). Interest on the facility is calculated based on prime less 0.25%, which was 2.20% at March 31, 2021 (March 31, 2020 – 2.20%). No amounts have been drawn on the facility at March 31, 2021 (March 31, 2020 - $nil). A standby fee of 0.25% is calculated daily on the undrawn portion and remitted to ATB quarterly.

13. Revenue from Contracts With Customers

i) Disaggregation of Revenue From Contracts With Customers

	March 31, 2021	March 31, 2020
Nature of revenue	**$**	**$**
New insurance policies	265	346
Ongoing service to policyholders	251	226
Performance bonuses and other	2	30
	518	**602**

Revenue from commissions related to the placement of new policies and performance bonuses are recognized at a point in time, while revenue from commissions related to the ongoing service to policyholders is recognized over time.

ii) Liabilities Related to Contracts With Customers

A contract liability represents the Company's obligation to provide services to a customer for which the entity has received consideration. As per note 2 g), ATBIA has two types of contract liability: i) chargebacks of first year compensation related to lapsed or canceled policies ("Lapse"); and ii) unsatisfied performance obligations to service policyholders in future years ("Future Service"), which arise only for new policies placed under the new agreement with the MGA that became effective March 1, 2018.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Amounts presented on the statement of financial position as contract liabilities include:

	March 31, 2021			March 31, 2020		
	Lapse	Future Service	**Total**	Lapse	Future Service	**Total**
	$	$	**$**	$	$	**$**
Current	15	29	**44**	17	21	**38**
Long-term	4	218	**222**	7	169	**176**
	19	**247**	**266**	**24**	**190**	**214**

iii) Revenue Recognized in Relation to Contract Liabilities

Revenue includes the following amounts recognized that were included in the contract liability balance at the beginning of the year:

	March 31, 2021	**March 31, 2020**
	$	**$**
Lapse	17	19
Future Service	21	9

iv) Unsatisfied Performance Obligations

The closing balance for the contract liabilities is expected to be recognized into revenue over the next 10 years as follows:

	Lapse	**Future Service**
	$	**$**
Fiscal 2022 to 2024 (1 to 3 years)	19	87
Fiscal 2025 to Fiscal 2027 (4 to 6 years)	-	87
Fiscal 2028 to Fiscal 2031 (7 to 10 years)	-	73
Total	**19**	**247**

14. Contingent Liabilities

ATBIA has received a third party claim by one of the Company's insurance carriers. No liability was recognized by ATBIA as at March 31, 2021, as the Company is in the process of evaluating the merits of the claim. As of the date of these financial statements the likelihood of a loss is not determinable.

15. Impact of COVID-19

The novel coronavirus (“COVID-19”) pandemic, and the resulting efforts by governments to control the spread and support economies, has and may continue to cause significant volatility in financial markets, disrupt business activity and impact the livelihoods of individuals and families. Public health measures, including lockdowns, may impact ATBIA Advisors’ interactions with existing and potential clients. Economic disruption may lead clients to cancel existing policies. These potential outcomes can impact the Company’s revenues. The effects of the pandemic are constantly evolving, such that the extent of its disruption to economic markets is uncertain and cannot be predicted. The Company continues to monitor developments and manage expenses accordingly.

ATB Investment Management Inc.

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

Opinion

I have audited the financial statements of ATB Investment Management Inc., which comprise the statements of financial position as at March 31, 2021 and 2020, and the statements of changes in equity, operations and comprehensive income, and cash flows for the years ended March 31, 2021 and 2020, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATB Investment Management Inc. as at March 31, 2021 and 2020, and its financial performance and its cash flows for the years ended March 31, 2021 and 2020 in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, for financial statements delivered by registrants.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of ATB Investment Management Inc. in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter - basis of accounting

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, Exemptions and Ongoing Registrant Obligations*. As a result, the financial statements may not be suitable for another purpose. My report is not modified in respect of this matter.

Other information

The financial statements of ATB Investment Management Inc. are included in the *Annual Report of the Ministry of Treasury Board and Finance* that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to ATB Investment Management Inc., but does not include the financial statements of ATB Investment Management Inc. and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audits or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to report the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, for financial statements delivered by registrants, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing ATB Investment Management Inc.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ATB Investment Management Inc.'s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 ATB Investment Management Inc.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ATB Investment Management Inc.'s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause ATB Investment Management Inc. to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 17, 2021
Edmonton, Alberta

ATB Investor Services™

ATB Investment Management Inc.

Statement of Financial Position

As at March 31, 2021 ($ thousands)

	March 31, 2021 $	March 31, 2020 $
ASSETS		
Current assets		
Cash	6,195	7,186
Due from related parties (note 4)	14,199	11,997
Client fees receivable	9,565	7,903
Due from advisors	70	177
Prepaid expenses	291	161
Securities owned	26	21
	30,346	27,445
Non-current assets		
Due from advisors	64	103
Software and computer equipment (note 7)	225	842
	289	945
	30,635	28,390
LIABILITIES		
Current liabilities		
Accrued liabilities	7,250	7,825
Incentive and other compensation payable (note 12)	648	794
Commissions payable	1,040	788
Due to affiliates (note 5)	746	1,417
Due to ATB (note 6)	11,940	9,611
	21,624	20,435
Long-term liabilities		
Incentive and other compensation payable (note 12)	182	491
	21,806	20,926
SHAREHOLDER EQUITY		
Share capital (note 8)	5	5
Retained earnings	8,824	7,459
	8,829	7,464
	30,635	28,390

The accompanying notes are an integral part of these financial statements

Approved by the Board of Directors

Original signed by
Director

Original signed by
Chief Financial Officer

ATB Investor Services™

ATB Investment Management Inc.

Statement of Change in Equity

For the year ended March 31, 2021 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholder Equity $
Balance at March 31, 2019	100	5	16,494	16,499
Dividends	-	-	(40,000)	(40,000)
Net income and comprehensive income	-	-	30,965	30,965
Balance at March 31, 2020	100	5	7,459	7,464
Balance at March 31, 2020	100	5	7,459	7,464
Dividends	-	-	(37,000)	(37,000)
Net income and comprehensive income	-	-	38,365	38,365
Balance at March 31, 2021	100	5	8,824	8,829

The accompanying notes are an integral part of these financial statements

ATB Investor Services™

ATB Investment Management Inc.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2021 ($ thousands)

	March 31, 2021	March 31, 2020
Revenue (notes 11 and 13)	**$**	**$**
Fund management fees	161,716	153,939
Fee based revenue	23,300	20,519
GIC commissions	101	146
Securities commissions	66	79
Interest income	44	351
Trailer fees and mutual fund commissions	15	9
Other income	1	11
	185,243	175,054
Administration and selling expenses (note 11)		
Trailing commissions expense	66,132	64,813
Third party fund manager fees	35,548	31,689
Intercorporate management fees (note 10)	9,467	19,340
Salaries and employee benefits	6,889	7,042
Professional fees	5,216	4,477
IT infrastructure and services	4,132	610
Commission expenses	3,865	3,398
General and administrative expenses (note 4)	2,668	1,757
Incentive compensation expenses	622	827
Amortization and depreciation expense (note 7)	617	648
Clearing and processing	246	236
Banking and interest charges	16	3
	135,418	134,840
Net income before payment in lieu of tax	49,825	40,214
Payment in lieu of tax ("PILOT") (note 6)	11,460	9,249
Net income and comprehensive income	38,365	30,965

The accompanying notes are an integral part of these financial statements

ATB Investor Services™

ATB Investment Management Inc.

Statement of Cash Flows

For the year ended March 31, 2021 ($ thousands)

Cash provided by (used in)	March 31, 2021 $	March 31, 2020 $
Operating activities		
Net income and comprehensive income	38,365	30,965
Items not affecting cash:		
Unrealized (gain) loss on securities owned	(5)	1
Amortization and depreciation expense	617	648
Net operating activities	38,977	31,614
Net change in non-cash working capital items		
Due from related parties	(2,202)	418
Client fees receivable	(1,662)	(1,054)
Due from advisors	146	325
Prepaid expenses	(130)	(136)
Accrued liabilities	(575)	(1,971)
Commissions payable	252	108
Incentive and other compensation payable	(455)	(508)
Due to affiliates	(671)	238
Due to ATB	2,329	539
Change in non-cash working capital items	(2,968)	(2,041)
Net cash from operating activities	36,009	29,573
Investing activities		
Software and computer equipment	-	2
Net cash used in investing activities	-	2
Financing activities		
Dividends	(37,000)	(40,000)
Net cash used in financing activities	(37,000)	(40,000)
Net change in cash	(991)	(10,425)
Cash at beginning of period	7,186	17,611
Cash at end of period	6,195	7,186
Supplementary information		
Interest paid	16	3
Interest received	44	351
PILOT paid	9,249	8,938

The accompanying notes are an integral part of these financial statements

ATB Investment Management Inc.
Notes to the Financial Statement
For the year ended March 31, 2021 ($ thousands)

1. Nature of Operations

ATB Investment Management Inc. ("ATBIM" or the "Company") is a wholly-owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Securities Inc. ("ATBSI"), ATB Insurance Advisors Inc. ("ATBIA") and ATB Capital Markets Inc. ("ATBCM"). ATBCM was formerly named AltaCorp Capital Inc. ATBIM, ATBSI, and ATBIA operate under the trademark ATB Wealth, which also includes certain private banking operations within ATB. ATBIM, ATBSI and ATBIA may be referred to collectively as ATB Investor Services ("ATBIS"), the trademark this group of companies previously operated under.

ATBIM was established to manage a family of mutual fund portfolios and to provide portfolio management services to high net worth clientele. ATBIM is registered as a Portfolio Manager and Investment Fund Manager with the Alberta Securities Commission ("ASC"). ATBIM is the fund manager for the Compass Portfolio Series of mutual funds and the ATBIS Pooled Fund Series of mutual funds (collectively, "ATBIS Funds"). As a provincial Crown corporation, ATBIM is exempt from income tax; however, it is subject to payment in lieu of tax ("PILOT") as described in note 6.

The address of the Company's registered office is:
2100, 10020 - 100 Street
Edmonton, Alberta T5J 0N3

These financial statements were approved by the Board of Directors on May 17, 2021.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants (the "Framework"). The Framework requires the financial statements to be prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises, as set out in the Chartered Professional Accountants of Canada (CPA Canada) Handbook, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified in IAS 27 - *Separate Financial Statements ("IAS 27")*. Accordingly, readers are cautioned that these financial statements may not be appropriate for other purposes. In 2010, the CPA Canada Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and requires publicly accountable enterprises to apply such standards in their financial reporting.

The Company has no investments in subsidiaries, jointly controlled entities, or associates as at March 31, 2021 and 2020.

These financial statements are presented in Canadian dollars, which is ATBIM's functional currency.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets and liabilities at fair value through profit and loss.

ATB Investment Management Inc.
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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 assets and liabilities, and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIM's critical accounting estimates under the Framework.

ATBIM's long-term incentive compensation plan liability has a maturity date longer than one year and therefore is carried at fair value using an appropriate discount rate. The valuation also includes estimates for ATB achieving future performance targets, and estimates for employee termination and forfeiture, all of which change the amount of the award.

Assessing financial assets for expected credit losses also requires management to make judgments about the likelihood of scenarios that might result in a financial loss.

The assumptions for these valuations are reviewed on a regular basis; however, actual values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Securities Owned

Securities owned consists of seed capital in the ATBIS Pooled Fund Series of mutual funds. At each reporting period, the Company assesses its investments in funds managed by the Company for control, or significant influence. Factors considered in the Company's assessment of control and significant influence over the funds include: i) extent of the Company's interest in the funds; ii) rights held by other investors; iii) the remuneration the Company is entitled to for its services as a manager to the fund; and iv) the scope of the Company's decision making authority. If a fund is considered to be controlled by the Company, it will be consolidated. If the Company determines that it has significant influence or joint control over a fund, then that fund is considered to be an associate.

e. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provision for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount of an asset is the gross carrying amount, less the estimated residual value at the end of its useful life. No depreciation is calculated on assets under development until the assets are available for use. As at March 31, 2021, computer equipment has been fully depreciated.

Depreciation rates, methods and the residual values underlying the calculation of depreciation are reviewed periodically to take account of any changes 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.

ATB Investment Management Inc.
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For the year ended March 31, 2021 ($ thousands)

f. Software

Software represents internally generated intangible assets, as defined under IAS 38 *Intangible assets*. Software is carried at cost less accumulated amortization and provision for impairment, if any, with cost amortized on a straight-line basis over the software's estimated useful life. No amortization is calculated on software under development until the assets are available for use. The estimated useful life for software is 3 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 that are in use by the Company are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software under development is reviewed for impairment annually. There were no indicators of impairment for the years ended March 31, 2021 or 2020.

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 its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

h. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company has not recognized any provisions at March 31, 2021 (March 31, 2020 - $nil).

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 an outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

i. Foreign Exchange

Financial assets and liabilities denominated in foreign currencies are translated into, and presented in, Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in other income in the statement of operations and comprehensive income.

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j. Revenue Recognition

As prescribed by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), revenue is recognized when control of a good or service transfers to a customer. IFRS 15 includes a five-step recognition and measurement framework that ATBIM follows in order to determine when to recognize revenue:

i. Identify the contract(s) with a customer
ii. Identify the performance obligation(s) in the contract
iii. Determine the transaction price
iv. Allocate the transaction price to the performance obligations(s)
v. Recognize revenue when (or as) ATBIM satisfies a performance obligation

Interest income is not in scope under IFRS 15 and is recorded on an accrual basis.

ATBIM has the following kinds of revenue from contracts with customers (see also note 13).

Fund Management Fees from ATBIS Funds

Depending on the series of units of held by investors, the prospectus of the ATBIS Funds permits ATBIM to charge fund management fees in consideration for providing, or arranging for, the provision of investment decisions, management of the ATBIS Funds, distributions and sales of the units of the ATBIS Funds, as well as covering the fees, costs and expenses related to third-party advisors who may be retained to make recommendations to ATBIM. These activities are considered to be a single performance obligation. The fund management fee charged by ATBIM is prescribed in the prospectus and based on the average daily net asset value ("NAV") of units held by all investors of the particular mutual fund series. ATBIM recognizes these fund management fees over time, records this revenue each month and generally collects from ATBIS Funds in the following month.

Fund Management Fees from Individual Investors and ATBSI

Depending on the series of units held by investors, the prospectus of the ATBIS Funds permits ATBIM to charge fund management fees to investors directly for the same services described above, where the customer in the contract is an ATBIM client rather than the ATBIS Funds. The fund management fee charged by ATBIM is negotiated between the investor and ATBIM, and based on the average daily NAV of units held by the individual client. ATBIM recognizes these fund management fees over time and records this revenue each month. ATBIM collects directly from client accounts every quarter, or when a client account is closed.

Employees of companies affiliated with ATBIM also hold these series of units as clients of ATBSI. In this instance, ATBIM charges the fund management fee permitted by the prospectus of the ATBIS Funds to ATBSI directly every month.

Advisory Fees from ATBIM clients

ATBIM earns fee based revenues from its clients for acting as a portfolio manager with full investment discretion. The fee structure charged by ATBIM for these services is negotiated between the client and ATBIM and based on the average daily market value of client assets under administration with ATBIM. ATBIM recognizes fee based revenue over time, records this revenue each month and collects directly from client accounts every quarter, or when a client account is closed.

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Other Contract Revenue - Other Fund Management Fees, Trailer Fees and Commissions

ATBIM earns various other fees and commissions from i) third-party mutual fund companies and asset managers for clients invested with those companies; ii) ATB for clients invested in ATB GICs; and iii) clients for trading certain securities. Depending on the contracts with these customers and the type of product the client is invested in, revenue can be earned either at a point in time or over time.

k. Employee Benefits

ATBIM provides benefits to employees through the following plans:

i) Defined Contribution Plan

ATBIM provides its non-union employees with a registered defined contribution pension plan. Contributions to the plan are expensed as related salaries or incentive compensation are earned, and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ii) Public Service Pension Plan ("PSPP")

The PSPP is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies, and public bodies. The plan provides a pension for each year of pensionable service based on the average salary of the highest five consecutive years up to the year's maximum pensionable earnings. The PSPP pools all assets and liabilities of participating employers, but there is no allocation of assets and liabilities to participating employers. In order to recognize an estimate of its own liability under this plan, ATB applies defined-benefit accounting; however, no further allocation of this amount to the ATBIS subsidiaries are determined, such that gains and losses associated with funding the liability are not shared with ATBIM. Contributions to the plan are expensed as related salaries are earned, and are recorded as salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

iii) Notional Supplemental Plan

ATBIM has a notional supplemental plan (NSP) that provides additional retirement benefits to eligible employees that cannot be provided within the defined contribution plan due to taxation limitations on contributions to a registered defined contribution pension plan.

The NSP account is an unfunded account established by ATB on behalf of each eligible employee, and consists of notional contributions, notional interest, and notional gains and losses. Notional contributions are amounts that would have been made pursuant to the defined contribution plan were taxation limits not imposed. Notional contributions include both employee and employer contributions. Notional interest is accrued on notional contributions at a rate for customer deposits with ATB in the calendar year of contribution until the end of the year, at which point the aggregate amount is notionally invested. The ongoing value of the notional investments is indexed to the NAV of one of the Compass Portfolio Series of mutual funds, resulting in notional gains and losses, which cease to accrue at the end of the month in which the employee retires or leaves the Company.

The Company is not required to secure the NSP benefits, or to establish or contribute to a funding arrangement of any kind with respect to the provision of benefits payable. The Company may establish, but has no obligation to establish, a special purpose reserve in respect of the liabilities under the NSP.

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The Company anticipates that the NSP will continue indefinitely; however, the Company reserves the right to amend, modify or terminate the NSP with or without replacement.

The NSP liability is recorded in long-term incentive and other compensation payable. Employer notional contributions, and notional interest and gains and losses are recorded as salaries and employee benefits in the statement of operations and comprehensive income and are described further in note 12 iii).

iv) Short-Term Employee Benefits

Short-term employee benefits, such as paid absences and other benefits including any related payroll taxes, are accounted for on an accrual basis over the period in which the employees provide the related services, and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump-sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Amounts payable under variable compensation plans at the end of the year are recorded in incentive and other compensation payable.

v) Long-Term Employee Benefits

ATBIM has a long-term incentive plan ("LTIP") for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the ATB Board of Directors. The amounts are subject to annual appreciation and depreciation factors that measure performance against targets, and are payable three years from the effective date of the grant. The liability for LTIP is recorded at the present value of the grants that have vested as of the reporting date, less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive and other compensation payable, and the related expense is included in incentive compensation expenses.

vi) Transfers of Clients Between Advisors

In accordance with the terms of their employment agreements, advisors may receive compensation for transitioning clients to other advisors in the Company. Similarly, advisors receiving the transferred clients who satisfy conditions outlined in their employment agreements may have compensation reduced in order to pay for these transition services. Advisors sign agreements with the Company that stipulate the total compensation to be paid or received in respect of the transfer of a specified list of clients. Advisors receive quarterly payments from ATBIM or make quarterly payments to ATBIM over the subsequent four years.

With respect to the advisor transferring clients, the Company recognizes a liability and an expense over the period during which the transition services occur. The liability is recorded in incentive and other compensation payable, while the expense is recorded in salaries and employee benefits. No interest is due to the transferring advisor on the outstanding balance.

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With respect to the advisor who is required to make a payment for receiving clients, the Company recognizes an asset and an expense recovery over the period during which the transition services occur. The asset is recorded in due from advisors, while the expense recovery is recorded in salaries and employee benefits. Advisors sign promissory notes for amounts owed to the Company; however, no interest is charged as the Company pays no interest on related amounts due to the transferring advisor.

l. 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, eligible employees of the Company may choose to purchase Achievement Notes issued by ATB (note 11) with a value linked to the fair market value of certain ATB subsidiaries, including ATBIM. The obligation to settle the notes with employees belongs to ATB, not ATBIM. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted, as the notes are issued to employees at fair value on the grant date.

m. Financial Instruments – Recognition and Measurement

Accounting policies are prescribed by IFRS 9 *Financial Instruments* (“IFRS 9”).

Recognition

All financial assets and financial liabilities are initially recognized on the trade date, which is the date that ATBIM becomes a party to the contractual provisions of the financial instrument. ATBIM derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired, or when the Company transfers the rights to receive the contractual cash flows in a transaction where 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 the contract is cancelled or has expired.

Classification and Measurement - Financial Assets

Financial assets are classified and measured at amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income (“FVOCI”). Classification is based on the Company’s business model for managing the specified financial assets, and whether the contractual cash flows of the specified financial asset represents solely payments and interest on the principal amount outstanding (the “SPPI test”). Principal is defined as the fair value of the asset at initial recognition and may change over the asset’s life. Interest payments can include consideration for the time value of money as well as for credit and liquidity risks. Financial assets are only reclassified if a significant change in the asset’s business model occurs subsequent to initial recognition.

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The classifications of the financial assets of ATBIM are as follows:

Financial Assets	Classification
• Cash • Due from related parties • Client fees receivable • Due from advisors	Amortized cost
• Securities owned	FVTPL

Financial assets held primarily to collect contractual cash flows that are comprised of principal and interest are classified as amortized cost. These assets are initially recognized at fair value – which is the cash consideration to originate or purchase the asset, including any transaction costs – and subsequently measured at amortized cost using the effective interest method.

For financial assets classified as amortized cost with an expected term of less than one year that do not have a significant financing component, IFRS 9 permits a practical expedient permitting initial measurement at the transaction price, which results in the recognition of no interest income under the effective interest method.

Classification and Measurement - Financial Liabilities

Financial liabilities are classified and measured at either FVTPL or amortized cost. Financial liabilities not classified as FVTPL are measured at amortized cost. Financial liabilities are never reclassified.

The classifications of the financial liabilities of ATBIM are as follows:

Financial Liabilities	Classification
• Accrued liabilities • Due to affiliates • Commissions payable • Incentive and other compensation payable (note 12) • Due to ATB	Amortized cost
• Incentive and other compensation payable - LTIP and NSP (note 12)	FVTPL

For financial liabilities classified as amortized cost, ATBIM initially measures all amounts at the transaction price, which results in the recognition of no interest expense under the effective interest method.

Impairment of Financial Assets

IFRS 9 incorporates an expected credit loss (“ECL”) model for the recognition and measurement of impairments of financial assets measured at amortized cost. The ECL model involves a staged approach, whereby financial assets move through three stages as their credit quality changes. ECL are the weighted-average credit losses, where the probability of default is used for the weighting.

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The stage of the ECL model dictates how ATBIM measures impairment losses:

- Stage 1: On initial recognition, for financial assets measured at amortized cost where there is not a significant financing component, ATBIM applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivable. For all other financial assets measured at amortized cost, ATBIM determines the impairment provision on a 12-month ECL basis. For these calculations, the Company uses a historical-based provision matrix adjusted for forward-looking factors.

- Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment, and where the overall assessment of credit risk at the reporting date is not still low, ATBIM records an estimate of lifetime ECL.

- Stage 3: For financial assets that have objective evidence of impairment at the reporting date, ATBIM records an estimate of lifetime ECL and recognizes interest income on the carrying value of the asset net of the credit allowance.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced, and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBIM may measure impairment on the basis of an instrument's fair value using an observable market price.

As at March 31, 2021 and March 31, 2020, none of the Company's financial assets were in stages 2 or 3 of the impairment model, and the Company applied the simplified approach to all financial assets in Stage 1.

n. Financial Instruments – Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of financial instruments that are short-term in nature is considered to be equal to carrying value. These items include cash, due from related parties, client fees receivable, due from advisors, accrued liabilities, commissions payable, due to affiliates, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These fair value estimates are classified as level 2 in the fair value hierarchy described in note 3.

Securities owned, and the liabilities for LTIP and the notionally invested portion of the NSP are carried at fair value. See note 3(i) for an explanation of how these items are valued and where they lie in the fair value hierarchy.

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3. Financial Instruments

i) Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

The fair value of securities owned as at March 31, 2021 was $26 (March 31, 2020 - $21). Securities owned are classified as level 1 under the fair value hierarchy. Changes in fair value are recorded as other income in the statement of operations and comprehensive income.

The portion of the NSP liability representing notionally invested funds is indexed to the value of the Compass Balanced Portfolio that has a quoted market price available. This portion of the NSP liability amounted to $39 as at March 31, 2021 (March 31, 2020 - $219), and is classified as level 2 under the fair value hierarchy.

The fair value of the LTIP component of incentive compensation payable is determined by estimating appreciation factors related to future years' performance, vesting awards over a three-year period, and discounting the expected future obligation of the grants using a rate of 2.7% per annum (March 31, 2020 - 4.2%). The LTIP obligation has been classified as level 3 under the fair value hierarchy.

The following table presents the change in fair value of level 3 financial instruments:

	March 31, 2021	March 31, 2020
	$	$
Fair value as at beginning of period	234	172
Vesting (forfeiture) of previous and current awards	(32)	132
Changes in estimates	-	5
Transfers to ATBSI	(94)	(6)
Settled	(62)	(69)
Fair value as at end of period	**46**	**234**

There have been no transfers between fair value hierarchy levels during the year.

ii) Financial Risk Management

ATBIM's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIM's overall risk management program focuses on the unpredictability of financial and economic markets, and seeks to minimize potential adverse effects on ATBIM's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

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Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency risk: Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIM does not hold significant amounts of financial instruments denominated in foreign currencies and therefore is not exposed to significant currency risk.

Interest rate risk: ATBIM is subject to interest rate risk as cash balances and the amount that is due to ATB excluding PILOT (note 6) are subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM is also exposed to interest rate risk as the fair value of the LTIP liability will fluctuate as a result of changes in market interest rates. ATBIM does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant on the Company's overall financial performance.

As at March 31, 2021, ATBIM held $6,195 in cash (March 31, 2020 - $7,186). As at March 31, 2021, if interest rates were to change by 25 bps, the change in interest income would be approximately $15 (March 31, 2020 - $18).

Price risk: ATBIM is exposed to price risk through the securities it owns and the NSP liability. As at March 31, 2021, if market prices were to change by 10%, the change in net income before PILOT would be $1 (March 31, 2020 - $20).

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss to ATBIM. ATBIM is exposed to credit risk through its cash, due from related parties, client fees receivable and due from advisors balances.

The application of the ECL model (note 2 m)) to the Company's various financial assets is described below:

- Cash balances are subject to the impairment requirements of IFRS 9; however, the identified impairment losses were immaterial. All cash is on deposit with ATB, an Alberta Crown Agent, from which management believes the probability of default is remote.

- Amounts presented as due from related parties are primarily comprised of fund management fees due from ATBIS Funds. This balance also includes certain fund expenses paid by ATBIM on behalf of ATBIS Funds, which ATBIM may choose to absorb (note 4). Given the low probability of default and the Company's history of no actual losses, the provision for ECL for due from related parties at March 31, 2021 was $nil (March 31, 2020 - $nil).

- Client fees receivable are collected directly from client accounts. For these balances, management believes default constitutes insufficient assets in the account to pay fees when billed, and that the probability of default is very low because ATBIM investment counselors are directly responsible for portfolio management. Given the low probability of default and a history of negligible actual losses, the provision for ECL for client fees receivable at March 31, 2021 was $nil (March 31, 2020 - $nil).

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- Promissory notes due from advisors with respect to payments for client transfers are paid down from the commission income earned by those advisors. For these amounts, management believes default constitutes an unpaid amount beyond 30 days, and that the probability of default is very low. In the event of default, the Company is permitted to both i) deduct amounts owed from other compensation payable due to the defaulting advisor; or ii) transfer clients from the defaulting advisor to another advisor. Given the low probability of default, a history of no actual losses and the low net exposure to actual losses, the provision for ECL for these amounts due from advisors as at March 31, 2021 was $nil (March 31, 2020 - $nil).

The Company's credit exposure at March 31, 2021 is $30,093 (March 31, 2020 - $27,366), which is the sum of its cash, due from related parties, client fees receivable and due from advisors balances.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligations and reducing dividends to its parent, ATB, as required.

The Company's financial liabilities giving rise to liquidity risk that are considered short-term, include accrued liabilities, incentive and other compensation payable, commissions payable, due to affiliates, and due to ATB.

4. Due from Related Parties

In the normal course of operations, ATBIM receives fund management fees from ATBIS Funds. ATBIM charges ATBIS Funds for services, including general and administrative expenses, and the portion of salaries and employee benefits for management time spent supporting the ATBIS Funds. ATBIM also pays certain expenses on behalf of ATBIS Funds, for which it is subsequently reimbursed. The amounts due from ATBIS Funds arising from these transactions are generally settled in the following month and are not subject to interest charges.

At its sole discretion, ATBIM may waive fund management fees and/or absorb expenses incurred on behalf of the ATBIS Funds. For the year ended March 31, 2021, the Company absorbed $573 of administration and selling expenses for the ATBIS Pooled Fund Series (March 31, 2020 - $665). This amount is recorded in general and administrative expenses. Such waivers and absorptions can be terminated at any time without notice.

	March 31, 2021	March 31, 2020
	$	$
Due from ATBIS Funds	14,199	11,997

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5. Due to Affiliates

In the normal course of operations, ATBIM transacts with ATBSI as described in note 11. The amounts that are due to affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges. The amounts due to affiliates are as follows.

	March 31, 2021	March 31, 2020
	$	$
Due to ATBSI	746	1,417

6. Due to ATB

In the normal course of operations, ATBIM transacts with ATB as described in note 11. The amounts due to ATB are generally settled in the following month.

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 Payment in lieu of tax ("PILOT") charge to be 23% of ATB's consolidated net income as reported in its audited annual financial statements under IFRS.

For the year ended March 31, 2021, ATBIM accrued and incurred an expense of $11,460 for PILOT (March 31, 2020 - $9,249). The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2021. PILOT is not charged on prior period adjustments or adjustments to retained earnings.

The net amount due to ATB less PILOT is subject to monthly interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2021 was 2.45% (March 31, 2020 - 2.45%).

The total amounts due to ATB arising from these transactions are as follows:

	March 31, 2021	March 31, 2020
	$	$
Due to ATB - PILOT	11,460	9,249
Due to ATB - Other	480	362
	11,940	9,611

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7. Software and Computer Equipment

	Computer Equipment $	Software $	Software Under Development $	Total $
Cost				
Balance at April 1, 2019	64	3,436	500	4,000
Additions	-	498	(2)	496
Transfers to completed assets	-	-	(498)	(498)
Retirements	-	(19)	-	(19)
Balance at March 31, 2020	64	3,915	-	3,979
Balance at April 1, 2020	64	3,915	-	3,979
Additions	-	-	-	-
Transfers to completed assets	-	-	-	-
Retirements	-	-	-	-
Balance at March 31, 2021	64	3,915	-	3,979
Accumulated Amortization and Depreciation				
Balance at April 1, 2019	21	2,487	-	2,508
Amortization and depreciation	22	626	-	648
Retirements	-	(19)	-	(19)
Balance at March 31, 2020	43	3,094	-	3,137
Balance at April 1, 2020	43	3,094	-	3,137
Amortization and depreciation	21	596	-	617
Retirements	-	0	-	0
Balance at March 31, 2021	64	3,690	-	3,754
Carrying Amounts				
Balance at March 31, 2020	21	821	-	842
Balance at March 31, 2021	-	225	-	225

There was no retirement of assets during the year ended March 31, 2021. The retirement of assets during the year ended March 31, 2020 resulted in a charge of $nil recorded to general and administrative expenses. There were no impairments recognized during the year ended March 31, 2021 (March 31, 2020 - $nil).

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

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, 2021	**March 31, 2020**
Class A common shares (#)	100	100
Share capital ($ in thousands)	5	5

9. Capital Risk Management and Restrictions

ATBIM's objectives in managing its capital, which is defined as shareholder equity, are:

- To safeguard ATBIM's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the ATBIS Board of Directors from time to time;
- To provide financial capacity and flexibility to meet its strategic objectives; and
- To maintain at all times working capital sufficient in size to satisfy the ASC's minimum excess working capital requirements.

The Company met the ASC's minimum excess working capital requirement of $100 throughout the year. The capital structure of ATBIM is managed and adjusted to reflect changes in economic conditions. Management may maintain or adjust the capital structure by adjusting the number of new common shares issued or by restricting dividends. In support thereof, management reviews the financial position of ATBIM on a monthly basis. ATBIM works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIM's capital management objectives have not changed over the periods presented.

10. Intercorporate Management Fees

An intercorporate management fee ("management fee") exists in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic, and supporting costs with ATBIM, ATBIA and the private banking business within ATB ("Private Banking"). The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM, ATBIA and Private Banking according to the proportion of total combined revenue that each generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

11. Related Party Transactions

In the normal course of operations, ATBIM pays trailing commissions and intercorporate management fees to ATBSI. ATBIM also pays relationship management fees to ATBSI where ATBSI advisors assist in managing relationships of ATBIM clients that were referred by ATBSI. ATBIM may reimburse ATBSI for payments to ATBSI advisors for the transfer of clients from ATBSI to ATBIM. ATBSI may pay for certain expenses on behalf of ATBIM. Also, ATBSI collects client fees on behalf of ATBIM. ATBIM does not transact with ATBIA or ATBCM.

In the normal course of operations, ATBIM earns interest income and GIC commissions from ATB, while ATB charges ATBIM for various administrative and selling expenses, as well as interest on amounts owing to ATB. Effective April 1, 2020, certain expenses previously charged to ATBIM through the intercorporate management fee by ATBSI are now being allocated directly to ATBIM by ATB.

A summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2021	March 31, 2020
	Revenue		**$**	**$**
ATBIS Funds	Fund management fees	Fund management fees	147,765	141,837
ATB	Interest income	Interest income	44	351
ATB	GIC commissions	GIC commissions	101	146
			147,910	**142,334**

Related Party	Transactions	Recorded as	March 31, 2021	March 31, 2020
	Administrative and selling expenses		**$**	**$**
ATBIS Funds	Fund expenses absorbed	General and administrative expenses	573	665
ATBIS Funds	ATBIS funds recoveries	Salaries and employee benefits	(629)	(675)
ATBSI	Trailer fees	Trailing commissions expense	65,990	64,674
ATBSI	Transfer of clients	Salaries and employee benefits	262	768
ATBSI	Achievement note account fees	Salaries and employee benefits	6	5
ATBSI	Relationship management fees	Professional fees	4,231	4,004
ATBSI	Management fees	Intercorporate management fees	9,467	19,340
ATB	Wire transfer cost	Professional fees	1	2
ATB	Marketing	General and administrative expenses	1,542	-
ATB	Employee benefits	Salaries and employee benefits	565	-
ATB	Rent	General and administrative expenses	513	517
ATB	Professional services	Professional fees	623	-
ATB	IT services and contracts	IT infrastructure and services	3,084	393
ATB	Interest expense, banking and standby fees	Banking and interest charges	16	3
ATB	Transition credit	General and administrative expenses	(295)	-
			85,949	**89,696**

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2020 (for the year ended March 31, 2021) and April 1, 2019 (for the year ended March 31, 2020). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

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. During the year, positions within ATBIM previously designated as part of key management personnel were reorganized, such that as at March 31, 2021, there were no key management personnel remaining directly within the Company.

Amounts paid directly by ATBIM to the key management personnel of ATBIM were as follows:

	March 31, 2021	March 31, 2020
	$	$
Short-term employee benefits	195	1,063
Deferred compensation and termination benefits	663	149
Retirement and post employment benefits	76	89
	934	**1,301**

The key management personnel of ATBIM are now wholly within ATBSI, and include the Chief Executive Officer of ATB Wealth and direct reports leading finance, risk, advisory and wealth management functions. Compensation paid to these key management personnel is allocated to ATBIM as part of the intercompany management fee (note 10) and is not included in the table above. The value of this compensation that was allocated to ATBIM for the year ended March 31, 2021 was $1,181 (March 31, 2020 - $1,988).

Employee Achievement Notes

ATB sells Principal-at-Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Wealth brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a value linked to the fair market 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.

The rebranding and reorganization of ATBIS into ATB Wealth did not change the manner in which Achievement Notes are valued. ATB Wealth's results are a combination of ATBIM, ATBSI, ATBIA and Private Banking. These combined results are published in ATB's quarterly and annual reporting. The basis of reporting for ATB Wealth is different from the legal entity results of ATBIM, ATBSI and ATBIA from which the Achievement Note valuation is derived.

Each note holder is entitled to:

- a cash payment at maturity representing the then-current value of their note;
- submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATB Wealth executives); and,
- cash distributions, if any, based on the formula set out in the note.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is a risk, if the valuation decreases, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the valuation is based on a model prepared by an external consultant that is updated annually.

The liability recorded by ATB with regards to the Achievement Notes owned by the employees of ATBIM, or previously allocated to ATBIM as part of shared management services, is as follows:

	March 31, 2021	March 31, 2020
	$	$
Liability at beginning of year	6,317	6,971
New subscriptions	250	433
Redemptions	(1,651)	(217)
Appreciation and vesting	1,209	(870)
Liability at end of year	**6,125**	**6,317**

12. Employee Benefits

i) Incentive and Other Compensation Payable

	March 31, 2021	March 31, 2020
	$	$
Due to advisors - transfer of clients	103	199
Incentive compensation plan payable	524	510
LTIP payable	21	85
Recorded in current liabilities	**648**	**794**
Due to advisors - transfer of clients	118	123
LTIP payable	25	149
NSP payable	39	219
Recorded in long-term liabilities	**182**	**491**

ii) Defined Contribution Plan and PSPP

ATBIM provides future benefits to employees through defined contribution plans. All defined contribution plan members are in a flexible pension plan, which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, or to an RRSP, RESP, or ATB mortgage. For the year ended March 31, 2021, expenses related to the flexible pension plan, which are recorded in salaries and employee benefits, were $659 (March 31, 2020 - $657).

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Some ATBIM employees are members of the PSPP (note 2 k) ii)). For the year ended March 31, 2021, expenses related to the PSPP were $79 (March 31, 2020 - $91).

iii) Notional Supplemental Plan

The change in the carrying value of the NSP liability for periods presented is as follows:

	March 31, 2021	March 31, 2020
	$	$
Carrying amount at beginning of year	219	181
Transfers to ATBSI	(21)	(1)
Employer contributions	30	43
Employee contributions	4	6
Gains and losses on notionally invested amounts	34	(10)
Settled	(227)	-
Carrying amount at end of year	**39**	**219**

iv) Incentive Compensation Plans

As at March 31, 2021, the Company had accrued and expensed $524 (March 31, 2020 - $510) for variable compensation plans related to the achievement of goals and performance targets (note 2 k) iv)).

For LTIP (note 2 k) v)), amounts recorded as at March 31, 2021 are as follows:

Fiscal Year Issued	LTIP Grants Issued	Allowance for Early Termination	Vested	PV of the Grants Vested
	$	$	$	$
2019	20	-	20	21
2020	20	1	12	14
2021	50	2	16	11
Total	**90**	**3**	**48**	**46**

The value presented for LTIP grants issued includes the appreciation and depreciation of those awards. For the year ended March 31, 2021, LTIP recovery was $32 due to forfeitures, (March 31, 2020 - expense of $155) and is recorded in incentive compensation expenses.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

13. Disaggregation of Revenue from Contracts with Customers

Nature of revenue	**Customer**	**March 31, 2021**	**March 31, 2020**
Recognized over time and based on assets under administration		**$**	**$**
Fund management fees	ATBIS Funds	147,765	141,837
Fund management fees	ATBIM clients	10,858	9,356
Fund management fees	Other	3,093	2,746
Fee-based revenue	ATBIM clients	23,300	20,519
GIC commissions	ATB	90	91
Trailer fees and mutual fund commissions	Third parties	15	9
		185,121	174,558
Recognized at a point in time			
Securities commissions	ATBIM clients	66	79
GIC commissions	ATB	11	55
		77	134
Total revenue from contracts with customers		**185,198**	**174,692**

14. Credit Facility

As at March 31, 2021, ATBIM had access to a $5,000 unsecured operating loan facility with ATB. This credit facility was reinstituted effective April 1, 2020. Interest on the facility was calculated based on prime plus 0.25%, which was 2.70% at March 31, 2021. A standby fee of $12 was paid during the year (March 31, 2020 - $nil) on the undrawn portion, and is recorded in banking and interest charges.

15. Commitments - Contractual Obligation

ATBIM is committed to payments under service agreements for software licences. ATBIM is also committed to payments under service agreements for mutual fund processing services that are recoverable from ATBIS Funds. The future minimum payments for such obligations are as follows:

	On behalf of ATBIS Funds	**Software**
	$	$
2022	5,081	254
2023	-	191
	5,081	**445**

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

16. Impact of COVID-19

The novel coronavirus (“COVID-19”) pandemic, and the resulting efforts by governments to control the spread and support economies, has and may continue to cause significant volatility in financial markets, disrupt business activity and impact the livelihoods of individuals and families. Market volatility can cause the value of clients investments to fluctuate and influence investor confidence, while economic disruption may lead to redemptions of investments by clients. Public health measures, including lockdowns, may impact our advisors’ interactions with existing and potential clients, and our ability to pursue strategic initiatives. All of these potential outcomes can impact a significant portion of the Company’s revenues that are derived from the value of invested assets.

The effects of the pandemic are constantly evolving, such that the extent of its disruption to economic markets is uncertain and cannot be predicted. The Company continues to monitor developments in equity and fixed income markets generally, as well as any impacts on the ATBIS Funds, and manage expenses accordingly.

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ATB Securities Inc.

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of ATB Securities Inc.

Report on the Financial Statements

Opinion

I have audited the financial statements of ATB Securities Inc., which comprise the statement of financial position as at March 31, 2021, and the statements of changes in equity, operations and comprehensive income, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATB Securities Inc. as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of ATB Securities Inc. in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The financial statements of ATB Securities Inc. are included in the *Annual Report of the Ministry of Treasury Board and Finance* that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to ATB Securities Inc., but does not include the financial statements and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing ATB Securities Inc.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ATB Securities Inc.'s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 ATB Securities Inc.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ATB Securities Inc.'s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause ATB Securities Inc. to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie, FCPA, FCMA, ICD.D
Auditor General

May 17, 2021
Edmonton, Alberta

ATB Securities Inc.

Statement of Financial Position

As at March 31, 2021 ($ thousands)

	March 31, 2021 $	March 31, 2020 $
ASSETS		
Current assets		
Cash	82,783	71,048
Clients' cash held in trust	39,890	39,823
Due from clients	11,709	10,612
Due from brokers and dealers	15,975	31,128
Client fees receivable	13,481	11,316
Trailer fees receivable	274	366
Due from affiliates (note 4)	746	1,424
Due from advisors (note 10)	3,979	3,709
Miscellaneous receivables	157	253
Prepaid expenses	725	514
	169,719	170,193
Non-current assets		
Software and computer equipment (note 6)	9,943	12,715
Due from advisors (note 10)	4,225	5,201
Deferred employee benefits	-	39
	14,168	17,955
	183,887	188,148
LIABILITIES		
Current liabilities		
Due to clients	74,556	81,938
Due to brokers and dealers	24,056	25,567
Accrued liabilities	5,809	7,712
Commissions payable	10,897	9,633
Incentive and other compensation payable (note 10)	8,720	8,000
Due to ATB (note 5)	4,915	4,397
	128,953	137,247
Long-term liabilities		
Incentive and other compensation payable (note 10)	7,736	8,115
	136,689	145,362
SHAREHOLDER EQUITY		
Share capital (note 7)	26,391	26,391
Retained earnings	20,807	16,395
	47,198	42,786
	183,887	188,148

The accompanying notes are an integral part of these financial statements

Approved by the Board Directors

Original signed by
Director

Original signed by
Chief Financial Officer

ATB Securities Inc.

Statement of Changes in Equity

For the year ended March 31, 2021 ($ and # in thousands)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholder Equity $
Balance at March 31, 2019	78,995	26,391	8,839	35,230
Dividends	-	-	(8,000)	(8,000)
Net income and comprehensive income	-	-	15,556	15,556
Balance at March 31, 2020	78,995	26,391	16,395	42,786
Balance at March 31, 2020	78,995	26,391	16,395	42,786
Dividends	-	-	(12,000)	(12,000)
Net income and comprehensive income	-	-	16,412	16,412
Balance at March 31, 2021	78,995	26,391	20,807	47,198

The accompanying notes are an integral part of these financial statements

ATB Securities Inc.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2021 ($ thousands)

	March 31, 2021	March 31, 2020
Revenue (note 11)	$	$
Trailer fees and mutual fund commissions	70,530	69,467
Fee based revenue	48,045	42,539
Intercorporate management fees	10,905	21,134
Relationship managment fees	4,231	4,004
Client account fees	2,286	2,353
GIC commissions	1,652	1,909
Interest income	654	1,728
Securities commissions	595	432
Other contract revenue	123	133
Other income (losses)	(113)	(103)
	138,908	143,596
Administration and selling expenses (note 9)		
Commission expenses	51,714	50,767
Salaries and employee benefits	34,525	35,508
General and administrative expenses	10,132	12,078
Incentive compensation expenses	5,761	3,802
Amortization and depreciation expense (note 6)	4,468	3,842
IT infrastructure and services	4,381	8,360
Professional fees	3,971	6,517
Clearing and processing	2,586	2,471
Banking and interest charges	56	48
	117,594	123,393
Net income before payment in lieu of tax	21,314	20,203
Payment in lieu of tax ("PILOT") (note 5)	4,902	4,647
Net income and comprehensive income	16,412	15,556

The accompanying notes are an integral part of these financial statements

ATB Securities Inc.

Statement of Cash Flows

For the year ended March 31, 2021 ($ thousands)

Cash provided by (used in)	March 31, 2021 $	March 31, 2020 $
Operating activities		
Net income and comprehensive income	16,412	15,556
Items not affecting cash:		
Amortization and depreciation expense	4,468	3,842
Net operating activities	20,880	19,398
Net change in non-cash working capital items		
Cash from clients and brokers/dealers	5,096	13,016
Client fees receivable	(2,165)	(1,324)
Trailer fees receivable	92	25
Due from affiliates	678	(256)
Due from advisors and deferred employee benefits	745	(1,809)
Miscellaneous receivables	96	(146)
Prepaid expenses	(211)	(47)
Accrued liabilities	(1,903)	1,851
Commissions payable	1,264	(443)
Incentive and other compensation payable	341	2,221
Due to ATB	518	2,068
Change in non-cash working capital items	4,551	15,156
Net cash from operating activities	25,431	34,554
Investing activities		
Purchases of software	(1,696)	(5,099)
Net cash used in investing activities	(1,696)	(5,099)
Financing activities		
Dividends	(12,000)	(8,000)
Net cash used in financing activities	(12,000)	(8,000)
Net change in cash	11,735	21,455
Cash at beginning of period	71,048	49,593
Cash at end of period	82,783	71,048
Supplementary information		
Interest paid	56	48
Interest received	654	1,728
PILOT paid	4,647	3,763

The accompanying notes are an integral part of these financial statements

ATB Securities Inc.

Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

1. Nature of Operations

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly-owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM"), ATB Insurance Advisors Inc. ("ATBIA") and ATB Capital Markets Inc. ("ATBCM"). ATBCM was formerly named AltaCorp Capital Inc. ATBSI, ATBIM, and ATBIA operate under the trademark ATB Wealth, which also includes certain private banking operations within ATB. ATBIM, ATBSI and ATBIA may be referred to collectively as ATB Investor Services ("ATBIS"), the trademark this group of companies previously operated under.

ATBSI was established to provide client wealth management services. ATBSI is a full service broker dealer, and is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investors Protection Fund ("CIPF"). As a provincial Crown corporation, ATBSI is exempt from income tax; however, it is subject to payment in lieu of tax ("PILOT") as described in note 5.

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements were approved by the Board of Directors on May 17, 2021.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on IFRS issued and outstanding as of March 31, 2021.

These financial statements are presented in Canadian dollars, which is ATBSI's functional currency. All references to $ are in Canadian dollars and references to US$ are in United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets at fair value through profit and loss.

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 assets and liabilities, and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBSI's critical accounting estimates under IFRS:

i) Depreciation and Amortization Methods

Computer equipment is depreciated and software is amortized over the estimated useful lives of the asset. Useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand, and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis, and depreciation and amortization calculations revised

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

accordingly, actual useful lives may differ from the estimates.

ii) Estimates for Valuing Certain Assets and Liabilities of ATBSI

ATBSI's loans to its advisors and its long-term incentive compensation plan liability ("LTIP") have maturity dates longer than one year and therefore are carried at fair value using an appropriate discount rate. The valuation of LTIP also includes estimates for ATB achieving future performance targets, and estimates for employee termination and forfeiture, all of which change the amount of the award. The Company's valuation of a financial guarantee liability (note 2 n)) requires management to assess the risk that another entity will not be able to pay some or all of its liabilities. Assessing financial assets for expected credit losses also requires management to make judgments about the likelihood of scenarios that might result in a financial loss. The discount rates, inputs and assumptions for these valuations are reviewed on a regular basis; however, actual results may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit. The Company primarily uses accounts held with ATB, but also has accounts with another financial institution for day-to-day cash management and regulatory purposes.

d. Clients' Cash Held in Trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans ("RRSP"), Registered Retirement Income Funds ("RRIF"), Registered Education Savings Plans ("RESP"), Tax Free Savings Accounts ("TFSA"), and Registered Disability Savings Plans ("RDSP"), which are segregated in a trust account with Canadian Western Trust. Corresponding liabilities are included in due to clients. Cash held in trust is restricted from use by ATBSI.

e. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provision for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount of an asset is the gross carrying amount, less the estimated residual value at the end of its useful life. No depreciation is calculated on assets under development until the assets are available for use. The computer equipment assets of ATBSI are fully depreciated.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are reviewed periodically 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 represents internally generated intangible assets, as defined under IAS 38 *Intangible assets*. Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over the software's estimated useful life. No amortization is calculated on software under development until the assets are available for use. The estimated useful life for software is 3 to 7 years. The useful life of subsequent improvements to software applications is selected to align with the end of the useful life of the underlying platform.

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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.

g. Impairment of Computer Equipment and Software

Computer equipment and software that are in use by the Company are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software under development is reviewed for impairment annually. There were no indicators of impairment for the years ended March 31, 2021 or March 31, 2020.

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 its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

h. Due from (to) Clients and Due from (to) Brokers and Dealers

Due from clients represents debit positions in client accounts. The majority of the amounts relate to margin balances and pending trades. Due to clients represents credit positions in client accounts, including clients' cash held in trust. These amounts are due on demand. Amounts due from or due to brokers and dealers relate to trades which have been executed but not settled. Transactions are recorded on a trade-date basis.

i. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company has not recognized any provisions at March 31, 2021 (March 31, 2020 - $nil).

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 an outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

j. Foreign Exchange

Financial assets and liabilities denominated in foreign currencies are translated into, and presented in, Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in other income (losses) in the statement of operations and comprehensive income.

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k. Revenue Recognition

As prescribed by IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), revenue is recognized when control of a good or service transfers to a customer. IFRS 15 includes a five-step recognition and measurement framework that ATBSI follows in order to determine when to recognize revenue:

i. Identify the contract(s) with a customer
ii. Identify the performance obligation(s) in the contract
iii. Determine the transaction price
iv. Allocate the transaction price to the performance obligations(s)
v. Recognize revenue when (or as) ATBSI satisfies a performance obligation

Interest income is not in scope under IFRS 15 and is recorded on an accrual basis.

ATBSI has the following kinds of revenue from contracts with customers (see also note 11).

Trailer Fees and Mutual Fund Commissions from Asset Managers

ATBSI may earn a trailing commission, or trailer fee, from asset management companies for providing advice to ATBSI clients while the clients hold investments in the mutual funds managed by such companies. These trailer fees are receivable while clients remain invested in the mutual funds. These asset management companies include ATBIM (for the Compass Portfolio Series and ATBIS Pooled Fund Series of mutual funds) and ATB (for its High Interest Savings Accounts, or HISA). Trailer fees earned by ATBSI are specified in the individual prospectuses of these mutual fund series, and are generally based on the average daily net asset value (“NAV”) of the mutual fund series or HISA product held by ATBSI clients. ATBSI accrues these trailer fees monthly, and receives payment from the asset managers on a monthly or quarterly basis. The individual prospectuses of certain mutual funds may also entitle ATBSI to earn other types of transaction commissions; however, these amounts are insignificant relative to trailer fees received.

Advisory Fees from ATBSI Clients (Fee Based Revenue)

ATBSI earns fee based revenues from certain clients for providing investment advice, which may include management of investment portfolios or wealth planning, while the clients hold investments through ATBSI. The advice fee charged by ATBSI is negotiated between the client and ATBSI in accordance with tiered rates set by Company guidelines. The fee is based on the average daily market value of client assets under administration by ATBSI as specified in the contract with the client, and applied equally to the satisfaction of all performance obligations of ATBSI. ATBSI accrues fee based revenues each month, and collects directly from client accounts every quarter, or when a client account is closed.

Intercorporate Management fees from ATBIM, ATBIA and ATB

An intercorporate management fee exists in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic, and supporting costs with ATBIM, ATBIA and the private banking business within ATB (“Private Banking”). This fee is calculated by determining the total amount of shared costs and allocating an amount to each of ATBSI, ATBIM, ATBIA and Private Banking according to the proportion of total combined revenue that each generates (net of eliminations) on a year-to-date basis. The fee charged by ATBSI is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

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Effective April 1, 2020, certain expenses previously charged by ATBSI through the intercorporate management fee to ATBIM and ATBIA are now being allocated directly to ATBIM and ATBIA by ATB.

Relationship Management Fees from ATBIM

ATBSI earns fees from ATBIM where ATBSI advisors are involved in managing relationships with ATBIM clients that were referred from ATBSI and who hold investments through ATBIM. The fee charged by ATBSI is negotiated between ATBIM and ATBSI, based on the fees charged by ATBIM to the clients, and applied equally to the satisfaction of all performance obligations. ATBSI accrues these fees each month and collects from ATBIM every quarter.

GIC Commissions from ATB

ATBSI earns commissions from ATB where ATBSI clients purchase or hold GICs offered through ATB. The commissions earned by ATBSI are specified in the service level agreement between ATB and ATBSI (note 9), and are based on the principal value and term of the GIC. ATBSI recognizes these commissions as revenue when it has fully satisfied its obligation to advise clients about purchasing or holding the GIC. Where GICs are non-redeemable, GIC commissions are recognized in full at the time of purchase for the entire term of the contract. Where the GICs are redeemable by the client without penalty and ATBSI has an ongoing obligation to advise clients about continuing to hold the GICs, commissions are recognized monthly, based on the number of days in the month the GIC was held.

Securities Trading Commissions and Client Account Fees from ATBSI Clients

ATBSI earns commissions from certain client trading activity, account fees for administering registered plan accounts not subject to advisory fees as described above, and other fees for transferring or deregistering accounts. ATBSI may choose to waive these fees. Securities trading commission rates and account fees are specified in the documentation provided to clients when they enroll with ATBSI. Securities trading commissions are recognized on a trade-date basis.

Fees for transferring or deregistering accounts are recognized when such activity occurs. Account administration fees are accrued evenly throughout the year and collected directly from client accounts annually. These fees are recorded in client account fees.

Other Contract Revenue

ATBSI earns commissions from ATBIA where client referrals result in new insurance policies placed through ATBIA. ATBSI also earns commissions from a third party discount broker for referrals.

l. Employee Benefits

ATBSI provides benefits to employees through the following plans:

i) Defined Contribution Plan

ATBSI provides its non-union employees with a registered defined contribution pension plan. Contributions to the plan are expensed as related salaries or incentive compensation are earned, and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

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ii) Public Service Pension Plan ("PSPP")

The PSPP is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies, and public bodies. The plan provides a pension for each year of pensionable service based on the average salary of the highest five consecutive years up to the year's maximum pensionable earnings. The PSPP pools all assets and liabilities of participating employers, but there is no allocation of assets and liabilities to participating employers. In order to recognize an estimate of its own liability under this plan, ATB applies defined-benefit accounting; however, no further allocation of this amount to the ATBIS subsidiaries are determined, such that gains and losses associated with funding the liability are not shared with ATBSI. Contributions to the plan are expensed as related salaries are earned, and are recorded as salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

iii) Notional Supplemental Plan

ATBSI has a notional supplemental plan (NSP) that provides additional retirement benefits to eligible employees that cannot be provided within the defined contribution plan due to taxation limitations on contributions to a registered defined contribution pension plan.

The NSP account is an unfunded account established by ATB on behalf of each eligible employee, and consists of notional contributions, notional interest, and notional gains and losses. Notional contributions are amounts that would have been made pursuant to the defined contribution plan were taxation limits not imposed. Notional contributions include both employee and employer contributions. Notional interest is accrued on notional contributions at a rate for customer deposits with ATB in the calendar year of contribution until the end of the year, at which point the aggregate amount is notionally invested. The ongoing value of the notional investments is indexed to the NAV of one of the Compass Portfolio Series of mutual funds, resulting in notional gains and losses, which cease to accrue at the end of the month in which the employee retires or leaves the company.

The Company is not required to secure the NSP benefits, or to establish or contribute to a funding arrangement of any kind with respect to the provision of benefits payable. The Company may establish, but has no obligation to establish, a special purpose reserve in respect of the liabilities under the NSP.

The Company anticipates that the NSP will continue indefinitely; however, the Company reserves the right to amend, modify or terminate the NSP with or without replacement.

The NSP liability is recorded in long-term incentive and other compensation payable. Employer notional contributions, and notional interest and notional gains and losses are recorded as salaries and employee benefits in the statement of operations and comprehensive income and are described further in note 10 iii).

iv) Short-Term Employee Benefits

Short-term employee benefits, such as paid absences and other benefits including any related payroll taxes, are accounted for on an accrual basis over the period in which the employees provide the related services, and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

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Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump-sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Amounts payable under variable compensation plans at the end of the year are recorded in incentive and other compensation payable.

v) Long-Term Employee Benefits

ATBSI has a long-term incentive plan ("LTIP") for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the ATB Board of Directors. The amounts are subject to annual appreciation and depreciation factors that measure performance against targets, and are payable three years from the effective date of the grant. The liability for LTIP is recorded at the present value of the grants that have vested as at the reporting date, less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive and other compensation payable, and the related expense is included in incentive compensation expenses.

vi) Loans to Advisors

For a period of time, ATBSI offered loans to its advisors at rates significantly below fair value as an employee benefit. These loans are financial assets, the accounting for which is described in note 2 n). No new loans are currently being offered by the Company.

As the rates on the loans to advisors are below market interest rates, the fair value of the loans is less than the carrying amount of the loans. The difference between the fair value on initial recognition and the carrying value is an employee benefit. As the loans are linked to future employee service, the difference between the carrying value and fair value is recorded as prepaid expenses on the statement of financial position, and expensed over the service period to salaries and employee benefits. If the employee is terminated or leaves ATBSI, the residual deferred employee benefit is immediately expensed to salaries and employee benefits.

vii) Transfers of Clients Between Advisors

In accordance with the terms of their employment agreements, advisors may receive compensation for transitioning clients to other advisors in the Company or ATBIM. Similarly, advisors receiving the transferred clients who satisfy conditions outlined in their employment agreements may have compensation reduced in order to pay for these transition services. Advisors sign agreements with the Company that stipulate the total compensation to be paid or received, in respect of the transfer of a specified list of clients. Advisors receive monthly payments from ATBSI or make monthly payments to ATBSI over the subsequent four years.

With respect to the advisor transferring clients, the Company recognizes a liability and an expense over the period during which the transition services occur. The liability is recorded in incentive and other compensation payable, while the expense is recorded in salaries and employee benefits. No interest is due to the transferring advisor on the outstanding balance.

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With respect to the advisor who is required to make a payment for receiving clients, the Company recognizes an asset and an expense recovery over the period during which the transition services occur. The asset is recorded in due from advisors, while the expense recovery is recorded in salaries and employee benefits. Advisors sign promissory notes for amounts owed to the Company; however, no interest is charged as the Company pays no interest on related amounts due to the transferring advisor.

ATBSI advisors may be involved in managing relationships with ATBIM clients who they referred to ATBIM (note 2 l)). When the advisor retires, the client relationship management is transferred fully to ATBIM, and ATBSI may recover related benefits paid to the advisor from ATBIM (note 9).

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, eligible employees of the Company may choose to purchase Achievement Notes issued by ATB (note 9) with a value linked to the fair market value of certain ATB subsidiaries, including ATBSI. The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

n. Financial Instruments – Recognition and Measurement

Accounting policies are prescribed by IFRS 9 *Financial Instruments* (“IFRS 9”).

Recognition

All financial assets and financial liabilities are initially recognized on the trade date, which is the date that ATBSI becomes a party to the contractual provisions of the financial instrument. ATBSI derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired, or when the Company transfers the rights to receive the contractual cash flows in a transaction where 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 the contract is cancelled or has expired.

Classification and Measurement - Financial Assets

Under IFRS 9, financial assets are classified and measured at amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income (“FVOCI”). Classification is based on the Company’s business model for managing the specified financial assets, and whether the contractual cash flows of the specified financial asset represents solely payments and interest on the principal amount outstanding (the “SPPI test”). Principal is defined as the fair value of the asset at initial recognition and may change over the asset’s life. Interest payments can include consideration for the time value of money, as well as for credit and liquidity risks. Financial assets are only reclassified if a significant change in the asset’s business model occurs subsequent to initial recognition.

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The classifications of the financial assets of ATBSI under IFRS 9 are as follows:

Financial Assets	Classification
• Cash • Clients' cash held in trust • Due from clients • Due from brokers and dealers • Due from advisors • Client fees receivable • Trailer fees receivable • Due from affiliates • Miscellaneous receivables	Amortized cost

Financial assets held primarily to collect contractual cash flows that are comprised of principal and interest are classified as amortized cost. These assets are initially recognized at fair value – which is the cash consideration to originate or purchase the asset, including any transaction costs – and subsequently measured at amortized cost using the effective interest method.

For financial assets classified as amortized cost with an expected term of less than one year that do not have a significant financing component, IFRS 9 permits a practical expedient permitting initial measurement at the transaction price, which results in the recognition of no interest income under the effective interest method.

For other financial assets measured at amortized cost, interest is reported as interest income in the statement of operations and comprehensive income.

Classification and Measurement - Financial Liabilities

Financial liabilities are classified and measured at either FVTPL or amortized cost. Financial liabilities not classified as FVTPL are measured at amortized cost. Financial liabilities are never reclassified.

The classifications of the financial liabilities of ATBSI under IFRS 9 are as follows:

Financial Liabilities	Classification
• Accrued liabilities • Due to clients • Due to brokers and dealers • Commissions payable • Incentive and other compensation payable (note 10) • Due to ATB	Amortized cost
• Incentive and other compensation payable - LTIP and NSP (note 10) • ATBCM guarantee	FVTPL

For all financial liabilities classified as amortized cost, ATBSI initially measures amounts at the transaction price, which results in the recognition of no interest expense under the effective interest method.

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Offsetting Financial Instruments

Financial assets and liabilities are offset in the financial statements when and only when there is a legally enforceable right to set off amounts and an intention to settle on a net basis or realize the asset and settle the liability simultaneously. A legally enforceable right exists when the right is enforceable in the normal course of business or in the event of default, insolvency, or bankruptcy.

The Company has the right to set off amounts due from clients in certain accounts against balances due to clients in certain other accounts; however, absent an actual event of default, the Company does not intend to settle client amounts on a net basis.

ATB Capital Markets Inc. Guarantee

Coincident with ATB's acquisition of a controlling interest in ATBCM, ATBSI and ATBCM (together, "the Guarantors") entered into a Uniform Guarantee by Members and Related Companies Agreement ("the Agreement"). The Agreement is required by IIROC by virtue of the Guarantors being participating IIROC firms and having common ownership under ATB as the parent company.

The Agreement requires that each Guarantor guarantee the debts, liabilities and obligations of the other Guarantor to their respective customers who are eligible for protection by CIPF in accordance with the terms contained therein.

The Agreement sets the guarantee amount as a percentage of regulatory capital. The percentage is limited to ATB's ownership of each of the Guarantors. The maximum guarantee of each Guarantor is equal to its regulatory capital at the time any demand is made, multiplied by the percentage applicable to the Guarantor. ATBCM is an introducing broker under IIROC rules and does not carry customer accounts that give rise to customer liabilities in the normal course of business. As a result, management believes that as long as ATBCM does not carry customer accounts, that there is no risk of loss. As of March 31, 2021, and March 31, 2020, no demands have been made under the Agreement and the maximum amount of ATBSI's guarantee under the Agreement is $nil.

IFRS requires the fair value of the guarantee liability at initial recognition to be included in the financial statements. Management has concluded that the fair value of the guarantee liability is not material, and, as such, it has not been recorded in the financial statements.The impact of the Agreement will be reassessed at each future reporting date as long as the Agreement is in place.

Impairment of Financial Assets

IFRS 9 incorporates an expected credit loss ("ECL") model for the recognition and measurement of impairments of financial assets measured at amortized cost. The ECL model involves a staged approach, whereby financial assets move through three stages as their credit quality changes. ECL are the weighted-average credit losses, where the probability of default is used for the weighting.

The stage of the ECL model dictates how ATBSI measures impairment losses:

- Stage 1: On initial recognition, for financial assets measured at amortized cost where there is not a significant financing component, ATBSI applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition date of the asset. For all other financial assets measured at amortized cost, ATBSI determines the impairment provision on a 12-month ECL basis. For these calculations, the Company uses a historical-based provision matrix adjusted for forward-looking factors.

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- Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment, and where the overall assessment of credit risk at the reporting date is not still low, ATBSI records an estimate of lifetime ECL.

- Stage 3: For financial assets that have objective evidence of impairment at the reporting date, ATBSI records an estimate of lifetime ECL and recognizes interest income on the carrying value of the asset, net of the credit allowance.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced, and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBSI may measure impairment on the basis of an instrument's fair value using an observable market price.

As at March 31, 2021 and March 31, 2020, none of the Company's financial assets were in stages 2 or 3 of the impairment model, and the Company applied the simplified approach to all financial assets in Stage 1, except for loans to advisors.

o. Financial Instruments – Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to carrying value. These items include cash, clients' cash held in trust, due from (to) clients, due from (to) brokers and dealers, client fees receivable, trailer fees receivable, due from advisors, due from affiliates, miscellaneous receivables, accrued liabilities, commissions payable, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These fair value estimates are classified as level 2 in the fair value hierarchy as described in note 3.

Liabilities for LTIP and the notionally invested portion of the NSP are carried at fair value. See note 3 i) for an explanation of how these items are valued and where they lie in the fair value hierarchy.

3. Financial Instruments

i) Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

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The portion of the NSP liability representing notionally invested funds is indexed to the value of a mutual fund with a quoted market price available. This portion of the NSP liability amounted to $1,184 as at March 31, 2021 (March 31, 2020 - $973) and is classified as level 2 under the fair value hierarchy.

The fair value of the LTIP component of incentive compensation payable is determined by estimating appreciation factors related to future years' performance, vesting awards over a three-year period, and discounting the expected future obligation of the grants using a rate of 2.7% per annum (March 31, 2020 - 4.2%). The LTIP obligation has been classified as level 3 under the fair value hierarchy.

The following table presents the change in fair value of level 3 financial instruments:

	March 31, 2021	March 31, 2020
	$	$
Fair value as at beginning of period	1,330	1,437
Vesting of previous and current awards	702	742
Changes in estimates	65	41
Transfers from ATBIM	94	6
Settled	(726)	(896)
Fair value as at end of period	**1,465**	**1,330**

There have been no transfers between fair value hierarchy levels during the period.

ii) Financial Risk Management

ATBSI's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBSI's overall risk management program focuses on the unpredictability of financial and economic markets, and seeks to minimize potential adverse effects on ATBSI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk, and price risk.

Currency risk: Foreign currency risk arises from 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. The Company's US dollar denominated balances amounted to:

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	March 31, 2021 US$	March 31, 2020 US$
Cash	2,862	1,889
Due from clients	26	2
Due from brokers and dealers	607	1,278
Client fees receivable	50	45
Miscellaneous receivables	-	1
Due to clients	(2,382)	(1,083)
Due to brokers and dealers	(531)	(1,255)
Accrued liabilities	(3)	(118)
	629	**759**

Based on these balances, a 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $40 (March 31, 2020 - $54).

Foreign exchange gains and losses are recorded in other income (losses) on the statement of operations and comprehensive income. Foreign exchange losses for the year ended March 31, 2021 were $113 (March 31, 2020 - $103).

Interest rate risk: ATBSI is subject to interest rate risk as cash balances and the amount that is due to ATB excluding PILOT (note 5) are subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI is exposed to interest rate risk as the value of its loans to advisors (recorded as part of due from advisors) and LTIP liability will fluctuate as a result of changes in market interest rates. ATBSI does not currently hold any financial instruments that mitigate this risk.

As at March 31, 2021, ATBSI held $122,673 in cash and clients' cash held in trust (March 31, 2020 - $110,871). As at March 31, 2021, if interest rates were to change by 25 bps, the change in interest income would be approximately $307 (March 31, 2020 - $277).

Price risk: ATBSI is exposed to price risk through the NSP liability. As at March 31, 2021, if market prices were to change by 10%, the change in salaries and employee benefits would be $118 (March 31, 2020 - $97).

Credit Risk

Credit risk is the risk that a counterparty to a financial asset will default resulting in a financial loss to ATBSI. ATBSI is exposed to credit risk primarily through its financial assets.

The application of the ECL model (note 2 n)) to the Company's various groups of financial assets is described below:

- Loans to advisors are considered low risk, as any amounts past due may be offset against compensation owed to these advisors. Therefore, the impairment provision is determined using 12 months of ECL. Where a loan balance remains outstanding from an advisor that is no longer an employee of ATBSI, the exposure to loss in the event of default could be higher. The provision for ECL on loans to advisors at March 31, 2021 was $5 (March 31, 2020 - $7).

- Cash and clients' cash held in trust balances are subject to the impairment requirements of IFRS 9; however, the identified impairment losses were immaterial. As at March 31, 2021, $2,026 of cash was on deposit with ATB, an Alberta Crown Agent. The remaining cash balance of $80,757 and clients' cash held in trust were on deposit with reputable financial institutions. Management believes the probability of default for each of these institutions is remote.

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- Amounts presented as due from clients pertain primarily either to margin accounts or trade settlements. For these balances, management believes default constitutes either a margin call that cannot be met due to insufficient assets, or unresolved settlement of trade balances beyond thirty days. Loans for margins accounts are fully secured by securities held in the borrower's account. The Company has credit controls, monitoring and procedures governing margin accounts, while the short-term nature of trade settlement amounts means balances are generally outstanding for only two to three days after becoming due. Given the low probability of default, the low exposure to actual losses should default occur, and the Company's history of negligible actual losses, the provision for ECL for due from clients balances at March 31, 2021 was $nil (March 31, 2020 - $nil).

- Amounts presented as due from brokers and dealers generally represent either amounts due from mutual fund companies for sales by ATBSI clients of mutual fund units and unpaid mutual fund distributions, or amounts due from brokers who facilitate sales of other securities by ATBSI clients. Amounts due from mutual fund companies can include settlements related to client investments in mutual fund trusts managed by ATBIM and HISA products managed by ATB. Generally, these balances are outstanding for only two to three days after becoming due. For these balances, management believes default constitutes an unresolved settlement beyond thirty days, and that the probability of default is very low. In the event of default, management believes the amount exposed to loss would be reduced by any amounts due to the counterparty recorded in due to brokers and dealers. Given the low probability of default, the lower net exposure to actual losses from third party counterparties should default occur, and the Company's history of negligible actual losses, the provision for ECL for due from brokers and dealers at March 31, 2021 was $nil (March 31, 2020 - $nil).

- Client fees receivable are collected directly from client accounts. For these balances, management believes default constitutes insufficient assets in the account to pay fees when billed, and that the probability of default is very low, as ATBSI advisors are able to approve and monitor client transaction activity or liquidate securities held by clients to pay outstanding fees. Given the low probability of default and a history of negligible actual losses, the provision for ECL for client fees receivable at March 31, 2021 was $nil (March 31, 2020 - $nil).

- Promissory notes due from advisors with respect to payments for client transfers are paid down from the commission income earned by those advisors. For these amounts, management believes default constitutes an unpaid amount beyond 30 days, and that the probability of default is very low. In the event of default, the Company is permitted to both i) deduct amounts owed from other compensation payable to the defaulting advisor; or ii) transfer clients from the defaulting advisor to another advisor. Given the low probability of default, a history of no actual losses and the low net exposure to actual losses, the provision for ECL for these amounts due from advisors as at March 31, 2021 was $nil (March 31, 2020 - $nil).

- Amounts due from affiliates are either from ATBIM, which is a profitable company with management common to ATBSI, or from ATBIA, which has a support agreement in place with ATB. Given the low probability of default, combined with the low exposure to actual losses should default occur, the provision for ECL for amounts due from affiliates at March 31, 2021 was $nil (March 31, 2020 - $nil).

- Remaining balances for financial assets measured at amortized cost, including trailer fees receivable and miscellaneous receivables are themselves not material, and as such the identified impairment loss was immaterial.

The Company's maximum credit exposure is $173,219 (March 31, 2020 - $174,880) which is the sum of all financial assets.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligations and determining whether additional funding is required through its credit facility or from its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk that are considered short-term include due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive and other compensation payable, and due to ATB.

4. Due from Affiliates

In the normal course of operations, ATBSI transacts with ATBIM and ATBIA as described in note 9. The amounts that are 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, 2021	March 31, 2020
	$	$
Due from ATBIM	746	1,417
Due from ATBIA	-	7
	746	**1,424**

5. Due to ATB

In the normal course of operations, ATBSI transacts with ATB as described in note 9. The amounts due to ATB are generally settled in the following month.

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 Payment in lieu of tax ("PILOT") charge to be 23% of ATB's consolidated net income as reported in its audited annual financial statements under IFRS.

For the year ended March 31, 2021, ATBSI accrued and incurred an expense of $4,902 for PILOT (March 31, 2020 - $4,647). The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2021. PILOT is not charged on prior period adjustments or adjustments to retained earnings.

The net amount due to ATB, excluding PILOT payable, is subject to monthly interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2021 was 2.45% (March 31, 2020 – 2.45%).

The total amounts due to ATB arising from these transactions are as follows:

	March 31, 2021	March 31, 2020
	$	$
Due to ATB - PILOT	(4,902)	(4,647)
Due (to) from ATB - Other	(13)	250
Due to ATB	**(4,915)**	**(4,397)**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

6. Software and Computer Equipment

	Computer Equipment	Software	Software Under Development	Total
	$	$	$	$
Cost				
Balance at April 1, 2019	1,096	27,287	5,233	33,616
Additions	-	9,943	5,099	15,042
Transfers to completed assets	-	-	(9,943)	(9,943)
Retirements	(1,079)	(10,456)	-	(11,535)
Balance at March 31, 2020	17	26,774	389	27,180
Balance at April 1, 2020	17	26,774	389	27,180
Additions	-	1,611	1,696	3,307
Transfers to completed assets	-	-	(1,611)	(1,611)
Balance at March 31, 2021	17	28,385	474	28,876
Accumulated Amortization and Depreciation				
Balance at April 1, 2019	1,091	21,067	-	22,158
Amortization and depreciation	5	3,837	-	3,842
Retirements	(1,079)	(10,456)	-	(11,535)
Balance at March 31, 2020	17	14,448	-	14,465
Balance at April 1, 2020	17	14,448	-	14,465
Amortization and depreciation	-	4,468	-	4,468
Balance at March 31, 2021	17	18,916	-	18,933
Carrying Amounts				
Balance at March 31, 2020	-	12,326	389	12,715
Balance at March 31, 2021	-	9,469	474	9,943

There was no retirement of assets during the year ended March 31, 2021. The retirement of assets during the year ended March 31, 2020 resulted in a charge of $nil recorded to general and administrative expenses. There were no impairments recognized during the year ended March 31, 2021 (March 31, 2020 - $nil).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

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, 2021	**March 31, 2020**
Class A common shares (#)	78,995,100	78,995,100
Share capital ($ in thousands)	26,391	26,391

8. Capital Risk Management and Restrictions

ATBSI's objectives in managing its capital, which is defined as shareholder equity, are:

- To safeguard ATBSI's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the ATBIS Board of Directors from time to time;
- To provide financial capacity and flexibility to meet its strategic objectives; and
- To maintain adequate risk-adjusted capital ("RAC") as required by IIROC.

The capital structure of ATBSI is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued or restricting dividends. In support thereof, management reviews the financial position of ATBSI on a monthly basis. ATBSI works towards managing its capital objectives to the extent possible while facing the challenges of dynamic market conditions. ATBSI's capital management objectives have not changed over the periods presented.

Regulatory Capital

IIROC sets and monitors capital requirements for the Company to protect clients and counterparties. The Company is required to maintain a prescribed minimum level of 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. ATBSI's policy is to maintain regulatory capital at levels in excess of IIROC requirements to provide a buffer for unexpected market conditions, as well as to have sufficient capital for future business expansion. There were no changes to IIROC rules that significantly impacted the Company's calculation of RAC during the years presented.

As at March 31, 2021, ATBSI had RAC of $26,482 (March 31, 2020 - $17,665), which exceeded regulatory requirements set out by IIROC. ATBSI met all the early warning tests as prescribed by IIROC throughout the years ended March 31, 2021 and March 31, 2020.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

9. Related Party Transactions

In the normal course of operations, ATBSI receives trailing commissions and relationship management fees from ATBIM, collects client fees on behalf of ATBIM, and receives referral fees from ATBIA. ATBSI receives trailer fees, GIC commissions, and interest income from ATB. ATBSI collects intercorporate management fees from ATBIM, ATBIA and ATB. ATBSI does not transact with ATBCM.

Effective April 1, 2020, certain expenses previously charged by ATBSI through the intercorporate management fee to ATBIM and ATBIA are now being allocated directly to ATBIM and ATBIA by ATB.

ATB charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB. ATBSI recovers benefits costs related to transfers of clients to ATBIM (note 2 l) vii)), and recovers a registered account administration fee from ATBIM, ATBIA and ATB.

A summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2021	March 31, 2020
	Revenue		**$**	**$**
ATBIM	Trailer fees	Trailer fees and mutual fund commissions	65,990	64,674
ATBIM	Relationship management fees	Relationship management fees	4,231	4,004
ATBIM	Management fees	Intercorporate management fees	9,467	19,340
ATBIA	Insurance referrals	Other contract revenue	27	26
ATBIA	Management fees	Intercorporate management fees	17	74
ATB	HISA trailer fees	Trailer fees and mutual fund commissions	1,327	1,258
ATB	GIC commissions	GIC commissions	1,652	1,909
ATB	Interest income	Interest income	20	112
ATB, ATBIM & ATBIA	Achievement note account fees	Client account fees	111	-
ATB	Management fees	Intercorporate management fees	1,421	1,720
			84,263	**93,117**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Related Party	Transactions	Recorded as	March 31, 2021	March 31, 2020
			$	$
	Administration and selling expenses			
ATB	Employee benefits	Salaries and employee benefits	593	1,051
ATB	Achievement note account fees	Salaries and employee benefits	-	(98)
ATB	Rent	General and administrative expenses	5,987	4,510
ATB	Marketing	General and administrative expenses	1,616	4,189
ATB	Transition credit	General and administrative expenses	(309)	(1,010)
ATB	IT services and contracts	IT infrastructure and services	4,235	7,544
ATB	Professional services	Professional fees	692	1,863
ATB	Interest expense and standby fees	Banking and interest charges	57	46
ATBIM	Recovery for transfer of clients	Salaries and employee benefits	(262)	(768)
ATBIM	Achievement note account fees	Salaries and employee benefits	-	(5)
			12,609	**17,322**

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2020 (for the year ended March 31, 2021) and April 1, 2019 (for the year ended March 31, 2020).The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

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 include the Chief Executive Officer of ATB Wealth and direct reports leading finance, risk, advisory and wealth management functions.

Key management personnel compensation comprises:

	March 31, 2021	March 31, 2020
	$	$
Short-term employee benefits	1,858	2,111
Deferred compensation	483	693
Retirement and post employment benefits	244	216
Termination benefits	-	1,285
	2,585	**4,305**

These amounts exclude all compensation associated with employee achievement notes, including new grants, distributions, appreciation and note redemptions. A portion of the compensation paid by ATBSI for key management personnel is recovered by the Company through the intercorporate management fees charged to ATBIM, ATBIA and ATB (note 2 k)).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

Employee Achievement Notes

ATB sells Principal-at-Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Wealth brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a value linked to the fair market 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.

The rebranding and reorganization of ATBIS into ATB Wealth did not change the manner in which Achievement Notes are valued. ATB Wealth's results are a combination of ATBSI, ATBIM, ATBIA and Private Banking. These combined results are published in ATB's quarterly and annual reporting. The basis of reporting for ATB Wealth is different from the legal entity results of ATBSI, ATBIM and ATBIA from which the Achievement Note valuation is derived.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note;
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATB Wealth executives); and,
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is a risk, if the valuation decreases, that the note holder will lose some or all of the original investment. There is no public market for these notes, and the valuation is based on a model prepared by an external consultant that is updated annually.

The liability recorded by ATB with regards to the Achievement Notes owned by the employees of ATBSI, or previously allocated to ATBSI as part of shared management services, is as follows:

	March 31, 2021	March 31, 2020
	$	$
Liability at beginning of year	31,508	36,783
New subscriptions	1,828	1,996
Redemptions	(3,422)	(3,204)
Appreciation and vesting	6,446	(4,067)
Liability at end of year	**36,360**	**31,508**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

10. Employee Benefits

i) Incentive and Other Compensation Payable

	March 31, 2021	March 31, 2020
	$	$
Due to advisors - transfer of clients	3,991	4,430
Incentive compensation plan payable	3,945	2,868
LTIP payable	784	702
Recorded in current liabilities	**8,720**	**8,000**
Due to advisors - transfer of clients	5,871	6,514
LTIP payable	681	628
NSP payable	1,184	973
Recorded in long-term liabilities	**7,736**	**8,115**

ii) Defined Contribution Plan and PSPP

ATBSI provides future benefits to employees through defined contribution plans. All defined contribution plan members are in a flexible pension plan, which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, or to an RRSP, RESP, or ATB mortgage. For the year ended March 31, 2021, expenses related to the flexible pension plan, which are recorded in salaries and employee benefits, were $4,914 (March 31, 2020 - $4,663).

Some ATBSI employees are members of the PSPP (note 2 l) ii)). For the year ended March 31, 2021, expenses related to the PSPP were $939 (March 31, 2020 - $939).

iii) Notional Supplemental Plan

The change in the carrying value of the NSP liability for periods presented is as follows:

	March 31, 2021	March 31, 2020
	$	$
Carrying amount at beginning of year	973	874
Transfers from ATBIM	21	1
Employer contributions	90	200
Employee contributions	30	54
Gains and losses on notionally invested amounts	220	(21)
Settled	(150)	(135)
Carrying amount at end of year	**1,184**	**973**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

iv) Incentive Compensation Plans

As at March 31, 2021, the Company had accrued and expensed $3,945 (March 31, 2020 - $2,868) for variable compensation plans related to the achievement of goals and performance targets (note 2 l) iv)).

For LTIP (note 2 l) v)), amounts as at March 31, 2021 are as follows:

Fiscal Year Issued	LTIP Grants Issued	Allowance for Early Termination	Vested	Present Value of Grants Vested
	$	$	$	$
2019	785	-	785	784
2020	792	40	502	487
2021	632	32	200	194
Total	**2,209**	**72**	**1,487**	**1,465**

The value presented for LTIP grants issued includes the appreciation and depreciation of those awards. For the year ended March 31, 2021, LTIP expense of $831 (March 31, 2020 - $823) is recorded in incentive compensation expenses.

v) Due from Advisors

For a period of time, the Company offered low-interest loans to advisors. No new loans are currently being offered by the Company. Loans to advisors bear interest at 1% (March 31, 2020 - 1%). On initial recognition, the loans are discounted using market rates of interest for similar loans of 9% (March 31, 2020 - 9%). Effective April 1, 2020, the entire present value discount is recorded as current in prepaid expenses. Previously, the current portion of the present value discount was recorded in prepaid expenses and the long-term portion was recorded as deferred employee benefits. These amounts will be amortized and recorded as salaries and employee benefits over the life of the loans. Other expenses represent costs paid by the Company on behalf of its advisors that are collected from the advisors in subsequent months, and are not part of the low-interest loan program.

	March 31, 2021	March 31, 2020
	$	$
Face value loans	73	112
Present value discount on loans	(9)	(13)
Expected credit losses on loans	(2)	(2)
Promissory notes for transfers of clients	3,254	3,342
Other expenses	663	270
Due from advisors - current	**3,979**	**3,709**
Face value loans	158	232
Present value discount on loans	(27)	(39)
Expected credit losses on loans	(3)	(5)
Promissory notes for transfers of clients	4,097	5,013
Due from advisors - long-term	**4,225**	**5,201**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

11. Disaggregation of Revenues from Contracts with Customers

Nature of revenue	Customer	March 31, 2021 $	March 31, 2020 $
Recognized over time - Based on assets under administration			
Trailer fees and mutual fund commissions	ATBIS Funds	65,990	64,674
Trailer fees and mutual fund commissions	Third parties	3,213	3,535
Trailer fees and mutual fund commissions	ATB (HISA)	1,327	1,258
Fee-based revenue	ATBSI clients	48,045	42,539
Relationship management fees	ATBIM	4,231	4,004
GIC commissions	ATB	619	360
Other contract revenue	Third parties	96	107
		123,521	116,477
Recognized over time - Other			
Intercorporate management fees	ATB, ATBIM, ATBIA	10,905	21,134
Client account fees	ATBSI clients	1,718	1,857
		12,623	22,991
Recognized at a point in time			
Securities commissions	ATBSI clients	595	432
Client account fees	ATBSI clients	568	496
Other contract revenue	ATBIA	27	26
GIC commissions	ATB	1,033	1,549
		2,223	2,503
Total revenues from contracts with customers		**138,367**	**141,971**

12. Credit Facility

As at March 31, 2021, ATBSI had access to a $10,000 unsecured operating loan facility with ATB (March 31, 2020 - $10,000). Interest on the facility is calculated based on prime less 0.25%, which was 2.20% at March 31, 2021 (March 31, 2020 – 2.20%). No amounts were drawn as at March 31, 2021 (March 31, 2020 - $nil). Standby fees of $25 were paid for the year ended March 31, 2021 on the undrawn portion (March 31, 2020 - $25), and are included in banking and interest charges.

13. Commitments - Contractual Obligation

ATBSI is committed to payments under service agreements for software licences including support and maintenance services. The future minimum payments for such obligations are outlined as follows:

Year	$
2022	1,826
2023	1,566
2024	753
	4,145

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2021 ($ thousands)

14. Impact of COVID-19

The novel coronavirus (“COVID-19”) pandemic, and the resulting efforts by governments to control the spread and support economies, has and may continue to cause significant volatility in financial markets, disrupt business activity and impact the livelihoods of individuals and families. Market volatility can cause the value of clients investments to fluctuate and influence investor confidence, while economic disruption may lead to redemptions of investments by clients. Public health measures, including lockdowns, may impact our advisors’ interactions with existing and potential clients, and our ability to pursue strategic initiatives. All of these potential outcomes can impact a significant portion of the Company’s revenues that are derived from the value of invested assets.

The effects of the pandemic are constantly evolving, such that the extent of its disruption to economic markets is uncertain and cannot be predicted. The Company continues to monitor developments in equity and fixed income markets generally, and manage expenses accordingly.

ATB Capital Markets Inc.

Consolidated Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of ATB Capital Markets Inc.

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of ATB Capital Markets Inc. (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholder equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Group in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The consolidated financial statements of the Group are included in the *Annual Report of the Ministry of Treasury Board and Finance* that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Group, but does not include the consolidated financial statements and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 17, 2021
Edmonton, Alberta

ATB CAPITAL MARKETS INC.
Consolidated Balance Sheet
(in Canadian dollars)

	March 31, 2021	March 31, 2020
ASSETS		
Current assets		
Cash (note 2)	$ 9,178,403	$ 4,783,149
Marketable securities at fair value (note 4)	73,048,072	9,161,329
Accounts receivable	4,673,522	3,485,606
Due from carrying broker (note 5)	764,364	885,666
Prepaid expenses	570,756	781,808
Income tax receivable	–	237,510
	88,235,117	19,335,068
Non-current assets		
Property and equipment (note 6)	996,808	1,305,585
Accounts receivable	37,942	56,019
Deposit with carrying broker (note 5)	572,975	609,202
Right of use asset (note 3)	2,351,793	3,125,602
	3,959,518	5,096,408
	$ 92,194,635	$ 24,431,476
LIABILITIES		
Current liabilities		
Subordinated loan (note 13)	10,000,000	13,125,000
Accounts payable and accrued liabilities	17,955,037	3,712,433
Due to carrying broker (note 5)	77,175	57,251
Liability to issuer	35,184,800	–
Current lease liabilities (note 3)	896,398	886,325
	64,113,410	17,781,009
Non-current liabilities		
Lease liabilities (note 3)	1,909,275	2,819,005
	66,022,685	20,600,014
SHAREHOLDER EQUITY		
Share capital (note 7)	$ 20,477,410	$ 6,257,410
Accumulated other comprehensive income	153,410	485,408
Retained earnings (deficit)	5,541,130	(2,911,356)
	26,171,950	3,831,462
	$ 92,194,635	$ 24,431,476

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board:

Original signed by
Director

Original signed by
Director

ATB CAPITAL MARKETS INC.

Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

For the year ended March 31, 2021
(in Canadian dollars)

	March 31, 2021	March 31, 2020
Revenue		
Agency commission	$ 6,290,192	$ 6,256,868
Corporate finance fees	26,905,203	6,609,282
Advisory fees	11,873,780	5,921,889
Market making	–	39,138
Interest and other	1,525,462	1,773,100
Net change in fair value of marketable securities	3,940,414	1,636,745
Research fees	356,036	418,965
	50,891,087	22,655,987
Direct costs		
Commission expenses	$ (6,196,174)	(6,785,028)
Clearing costs	(676,877)	(821,052)
	(6,873,051)	(7,606,080)
	44,018,036	**15,049,907**
Expenses		
Salaries, benefits, and bonus (note 12)	21,718,379	9,634,524
General and administrative expenses (note 12)	9,493,521	8,102,868
Depreciation and amortization	1,094,124	1,189,109
Interest expense (note 12)	832,451	964,401
Total Expenses	33,138,475	19,890,902
Net income before income taxes and payment in lieu of tax	**10,879,561**	**(4,840,995)**
Payment in lieu of tax (note 8)	2,425,929	–
Income taxes (recovery) (note 8)		
Current	1,146	(250,959)
Deferred	–	72,005
	1,146	(178,954)
Net income (loss) for the year	**$ 8,452,486**	**$ (4,662,041)**
Other Comprehensive income		
Foreign currency translation of foreign operations	(331,998)	177,392
Net income and comprehensive income (loss)	**$ 8,120,488**	**$ (4,484,649)**

The accompanying notes are an integral part of these financial statements

ATB CAPITAL MARKETS INC.

Consolidated Statement of Changes in Shareholder Equity

For the year ended March 31, 2021
(in Canadian dollars)

	Share Capital $	Accumulated Other Comprehensive Income $	Retained Earnings $	Total Equity $
Balance at March 31, 2019	$ 6,391,675	$ 308,016	$ 1,773,805	$ 8,473,496
Net loss	–	–	(4,662,041)	(4,662,041)
Other Comprehensive Income	–	177,392	–	177,392
Shares Repurchased (note 7)	(554,680)	–	(23,120)	(577,800)
Shares Issued (note 7)	230,000	–	–	230,000
Share Purchase Loan	190,415	–	–	190,415
Balance at March 31, 2020	$ 6,257,410	$ 485,408	$ (2,911,356)	$ 3,831,462
Balance at March 31, 2020	$ 6,257,410	$ 485,408	$ (2,911,356)	$ 3,831,462
Net Income	–	–	8,452,486	8,452,486
Other Comprehensive Income	–	(331,998)	–	(331,998)
Shares Repurchased (note 7)	(780,000)	–	–	(780,000)
Shares Issued (note 7)	15,000,000	–	–	15,000,000
Balance at March 31, 2021	$ 20,477,410	$ 153,410	$ 5,541,130	$ 26,171,950

The accompanying notes are an integral part of these financial statement

ATB CAPITAL MARKETS INC.
Consolidated Statement of Cash Flows

For the year ended March 31, 2021
(in Canadian dollars)

	March 31 2021	March 31 2020
Operating activities		
Net income (loss) for the year	$ 8,452,486	$ (4,662,041)
Items not affecting cash		
Foreign currency translation	(331,998)	177,392
Depreciation and amortization	1,094,124	1,189,109
Deferred income tax provision	–	72,005
	$ 9,214,612	$ (3,223,535)
Net Change in non-cash working capital items		
Marketable securities owned at fair value	$ (63,886,743)	$ 23,927,584
Due from carrying brokers	121,302	(592,959)
Accounts receivable	(1,169,839)	(2,470,271)
Prepaid expenses	211,052	21,026
Deferred leasehold inducements	–	(655,076)
Income taxes receivable	237,510	175,199
Accounts payable and accrued liabilities	14,242,604	1,534,195
Liability to issuer	35,184,800	(16,875,000)
Due to carrying brokers	19,924	(102,338)
Marketable securities short at fair value	–	(50,012)
	(15,039,390)	4,912,348
	$ (5,824,778)	$ 1,688,813
Investing activities		
Purchase of property and equipment	$ (5,254)	$ (34,107)
Deposits with carrying brokers	36,227	(18,416)
	$ 30,973	$ (52,523)
Financing activities		
Subordinated loan advances	$ 41,875,000	$ 5,000,000
Payment of principal portion of lease liability	(905,941)	(283,406)
Subordinated loan repayments	(45,000,000)	(5,625,000)
Redemption of share capital	(780,000)	(577,800)
Issuance of share capital	15,000,000	420,415
	$ 10,189,059	$ (1,065,791)
Net increase (decrease) in cash for the year	4,395,254	570,499
Cash, beginning of year	4,783,149	4,212,650
Cash, end of year	**$ 9,178,403**	**$ 4,783,149**
Supplementary information		
Interest paid	$ 832,451	$ 964,401
Interest received	99,941	621,385
Income taxes paid	1,146	–

ATB CAPITAL MARKETS INC.
Notes to Consolidated Financial Statements

For the year ended March 31, 2021
(in Canadian dollars)

1. Nature of Business

ATB Capital Markets Inc. (the "Company" or "ATB CMI") (formerly known as AltaCorp Capital Inc) was incorporated on May 17, 2010 under the Alberta Business Corporations Act and commenced operations on January 19, 2011. The Company's wholly-owned subsidiary, ATB Capital Markets USA Inc. (the "Subsidiary") was incorporated on June 21, 2010 under the Alberta Business Corporations Act and commenced operations on April 5, 2011. On January 1, 2018, ATB Financial ("ATB") became the controlling shareholder of the Company, and on March 31, 2020 the Company became a wholly owned subsidiary of ATB Financial. As a provincial Crown corporation, ATB CMI is exempt from income tax; however, it is subject to payment in lieu of tax ("PILOT") as described in note 8. On May 29, 2020 AltaCorp Capital Inc changed its name to ATB Capital Markets Inc, and on June 21, 2020 AltaCorp Capital (USA) Inc followed suit and changed its name to ATB Capital Markets USA Inc.

The Company is registered as a Type II Introducing Broker, under the regulatory authority and provisions of the Investment Industry Regulatory Organization of Canada ("IIROC") and conducts its operations under an agreement dated October 16, 2012 with National Bank Independent Network ("NBIN"), which acts as the "Carrying Broker". The agreement does not contain a termination date, but there is a termination charge during the first three years of the agreement. NBIN performs certain securities trading and clearing activities and record keeping as the agent for the Company for a fee based on the number of trades executed, settled, and cleared on behalf of the Company. As a result, NBIN is responsible for the Company's client accounts subject to indemnification by the Company for any related losses. The Company is a member of the Canadian Investor Protection Fund ("CIPF") and provides institutional trading as well as corporate underwriting and advisory services.

The Subsidiary is registered as a broker/dealer with the Financial Industry Regulatory Authority, Inc. ("FINRA") and is a member of the Securities Investor Protection Corporation ("SIPC"). The Subsidiary specializes in investments in the Canadian energy industry and deals exclusively with institutional clients. The Subsidiary became an Introducing Broker to Apex Clearing Corporation ("Apex Clearing") on June 5, 2012. Apex Clearing performs certain securities clearing activities and record keeping as the agent for the Subsidiary for a fee based on the number of trades executed, settled, and cleared on behalf of the Subsidiary. The Subsidiary's Fully Disclosed Clearing Agreement with Apex Clearing expires August 28, 2021.

The address of the Company's registered office is:
410, 585 – 8 Avenue SW
Calgary, Alberta T2P 1G1

These financial statements were approved by the Board of Directors on May 17, 2021.

2. Significant Accounting Policies

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC") and include the accounts of the Company and its Subsidiary. The accounting policies, methods of computation, and presentation applied in these financial statements are the same as those applied in the Company's audited financial statements for the year ended March 31, 2020 except as described in the notes to the financial statements. All intercompany transactions and balances have been eliminated.

These consolidated financial statements have been prepared on the historical cost basis, except for the valuation of certain financial assets and financial liabilities at fair value through profit and loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets. These statements are presented in Canadian dollars, which is the Company's functional currency. The Subsidiary has a functional currency of U.S. dollars.

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

(b) Critical accounting estimates and judgements

These consolidated financial statements, prepared in accordance with IFRS, include estimates and assumptions by management that affect the reported amount of assets, liabilities, income, and expenses during the reporting period. Management believes that the Company's critical accounting policies where judgement is necessarily applied are those which relate to expected credit losses, the valuation of financial instruments, and the fair value of the cross guarantee agreement. Actual results could differ from these results.

The COVID-19 pandemic continues to evolve and the economic environment in which the Company operates continues to be subject to sustained volatility, which could continue to impact our financial results, as the duration of the pandemic and the effectiveness of steps undertaken by governments and central banks in response to the pandemic remain uncertain. The Company continues to closely monitor the changing conditions and their impacts.

(c) Revenue recognition

IFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer and includes a five-step recognition and measurement framework that ATB CMI follows in order to determine when to recognize revenue.

i. Identify the contract(s) with customer

ii. Identify the performance obligation(s) in the contract

iii. Determine the transaction price

iv. Allocate the transaction price

v. Recognize revenue when (or as) ATB CMI satisfies a performance obligation

ATB Capital Markets main type of revenue contracts are as follows:

Agency commissions revenue consists of revenue generated through traditional commission-based brokerage services, recognized on a trade date basis.

Corporate finance fees are comprised of fees earned when the Company acts as agent or underwriter in the distribution of the securities of issuers. Corporate finance fees are recorded at the time the transaction is completed and the related revenue is reasonably determinable and the amount is collectible.

Advisory fees are recorded, depending on the terms of the engagement agreement, at the time the transaction is completed, or advice is provided, and the related income is reasonably determinable and collectible.

Market making consists of unrealized and realized profits and/or losses earned by the Company's Market Makers, recognized on a trade date basis.

Unrealized underwriting position gains or losses consist of the difference between the new issue price (excluding the underwriter's commission) and the fair value of the unsold position on a trade date basis.

Research fee revenue is earned as a result of providing research services to clients. The revenue is recognized once the services have been provided and the related income is reasonably determinable.

Interest and other income are recognized on an accrual basis using the effective interest method for interest-bearing instruments.

(d) Cash

Cash consists of Canadian and US currency on deposit at a Canadian financial institution.

(e) Lease

The Company recognizes a right-of-use asset and a corresponding lease liability for all leases except for leases where the underlying assets are of low value and short-term leases with a contractual term of 12 months

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

or less. Lease liability at the initial date of the lease represents the net present value of the lease payments, including any exercise price of a purchase option if it is reasonably certain of being exercised, discounted by using the interest rate implicit in the lease or, if this cannot be readily determined, the incremental borrowing rate of the Company at the date of the lease. The interest calculated on the lease liability is expensed as interest expense. The right-of-use asset is equal to the lease liability plus any prepayments, less any lease incentive or inducements received, initial restoration costs and any direct costs incurred. A corresponding provision is set up for any restoration costs included in the right-of-use asset. The right-of-use asset is depreciated on a straight-line basis over the term of the lease.

(f) Property and equipment

Property and equipment are recorded at cost less amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Leasehold improvements	term of lease	straight-line method
Furniture and fixtures	20%	declining balance method
Computer equipment	45% and 55%	declining balance method
Computer software	100%	declining balance method

One-half the normal amortization is charged in the year of acquisition for computer equipment, computer software and furniture and fixtures. The Company does not record amortization on its artwork since it has an indefinite useful life.

(g) Income taxes

Income tax expense consists of current and deferred taxes. It is recognized in the consolidated statements of income and comprehensive income, except to the extent that the expense relates to items recognized in other comprehensive income or directly in shareholder equity.

Current income tax is the expected tax payable or recoverable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or recoverable in respect of previous years. Current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax assets are recognized to the extent that it is more likely than not that taxable profits will be available against which deductible temporary differences can be utilized and deferred tax liabilities are generally recognized for all taxable temporary differences. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets and liabilities are measured using rates that are expected to be applied to the temporary differences when they reverse. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax authority.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(h) Financial instruments

Recognition

All financial assets and financial liabilities are initially recognized on the trade date, which is the date that ATB CMI becomes a party to the contractual provisions of the financial instrument. The Company derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired, or when the

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

Company transfers the rights to receive the contractual cash flows in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, or the contract is cancelled or has expired.

Classification and measurement – Financial assets

Under IFRS 9, financial assets are classified and measured at amortized cost, fair value through profit and loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI"). Classification is based on the Company's business model for managing the specified financial asset represents solely payments and interest on the principal amount outstanding (the "SPPI test"). Principal is defined as the fair value of the asset at initial recognition and may change over the asset's life. Interest payments can include consideration for the time value of money, as well as for credit and liquidity risks. Financial assets are only reclassified if a significant change in the asset's business model occurs subsequent to initial recognition.

Financial assets held primarily to collect contractual cash flows comprised of principal and interest are classified as amortized cost. These assets are initially recognized at fair value – which is the cash consideration to originate or purchase the asset, including any transaction costs – and subsequently measured at amortized cost using the effective interest rate method.

For financial assets classified as amortized cost with an expected term of less than one year that do not have a significant financing component, IFRS 9 permits a practical expedient permitting initial measurement at the transaction price, which results in the recognition of no interest income under the effective interest rate method.

For other financial assets measured at amortized cost, interest is reported as interest income in the statement of income and comprehensive income.

Marketable securities are classified as FVTPL. Income from the changes in fair values is recognized as unrealized gains and/or losses on the statement of income and comprehensive income.

Classification and measurement – Financial liabilities

Financial liabilities are classified and measured at either FVTPL or amortized cost. Financial liabilities not classified as FVTPL are measured at amortized cost. For all financial liabilities classified as amortized cost, including liability to issuer, subordinated loan, accounts payable and accrued liabilities and due to carrying broker, the Company initially measures amounts at the transaction price, which results in the recognition of no interest expense under the effective interest rate method.

Impairment of financial assets

IFRS 9 establishes a new expected credit loss ("ECL") model for the recognition and measurement of impairments of financial assets measured at FVOCI. The ECL model involves a staged approach, whereby financial assets move through three stages as their credit quality changes. Expected credit losses are the weighted-average credit losses, where the probability of default is used for the weighting. The stage of the ECL model dictates how the Company measures impairment losses:

Stage 1: On initial recognition, for financial assets measured at amortized cost where there is not a significant financing component, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition date of the asset. For all other financial assets measured at amortized cost, the Company determines the impairment provision on a 12-month ECL basis. For these calculations, the Company uses a historical-based provision matrix adjusted for forward-looking factors.

Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment, and where the overall assessment of credit risk at the reporting date is not still low, the Company records an estimate of lifetime ECL.

Stage 3: For financial assets that have objective evidence of impairment at the reporting date, the Company records an estimate of lifetime ECL and recognizes interest income on the carrying value of the asset, net of the credit allowance.

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

As at March 31, 2021 and March 31, 2020, none of the Company's financial assets were in stages 2 or 3 of the impairment model.

(i) Securities owned

Securities owned and securities sold short are carried at fair values as at the reporting date. Fair value is based on quoted closing market prices for exchange-traded equities, actively traded equities and fixed income securities traded in the over-the-counter markets. For non-quoted securities, fair value is determined using appropriate methods which take into account the liquidity of the securities, the size of the bid and ask spread, the relative breadth of the market, current yield adjustments and other factors. Included in the Company's securities owned are broker warrants which are derivative financial assets and are carried in the Company' consolidated balance sheet at their estimated fair value, determined using a modified Black Scholes model. Securities owned also includes the Company's commitment to purchase any unsold securities from an issuer upon closing of a bought deal financing and market makers positions.

(j) Securities transactions

Securities transactions and related revenues and expenses are recorded on a trade date basis. Transaction costs are expensed as incurred.

(k) Comprehensive income

Other comprehensive income (loss) represents changes in shareholders' equity that result from unrealized gains and losses on financial assets classified and measured as FVOCI, unrealized foreign exchange gains and losses arising from the translation of the financial statements for self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income (loss), which is presented as a separate category of shareholders' equity on the consolidated balance sheet.

(l) Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company has not recognized any provisions at March 31, 2021 (March 31, 2020 - $nil).

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 ATB CMI, or, are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require an outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

(m) Foreign currency transactions

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Subsidiary with the U.S. dollar as its functional currency is expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in shareholders' equity.

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

(n) Accounting standards adopted

There have been no new standards, amendments or interpretations that have relevance to the Company that are effective for the first time for the financial year beginning March 31, 2020.

There were no significant IFRS accounting standards, interpretations or amendments to existing IFRS accounting standards that were not yet effective as at March 31, 2021 that are expected to have a material impact on the financial statements.

3. IFRS 16 Lease

Right-of-use Asset		Total
Cost:		
At April 1, 2019, on adoption of IFRS 16	$	3,988,736
Additions		–
At March 31, 2020	$	3,988,736
Adjustment		(75,405)
At March 31, 2021	$	3,913,331
Accumulated depreciation		
At April 1, 2019, on adoption of IFRS 16	$	–
Depreciation		(863,134)
At March 31, 2020	$	(863,134)
Depreciation		(698,404)
At March 31, 2021	$	(1,561,538)
Carrying value		
March 31, 2020	$	3,125,602
March 31, 2021	$	2,351,793

Lease Liabilities		Total
Cost:		
At April 1, 2019, on adoption of IFRS 16	$	4,536,406
Additions		–
Interest expense		55,249
Lease payments		(886,325)
At March 31, 2020	$	3,705,330
Additions		–
Interest expense		73,810
Lease payments		(970,209)
At March 31, 2021	$	2,805,673

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

In one year or less	$	896,398
In more than one year, but less than five years		1,909,275
In more than five years		–
	$	2,805,673

4. Fair Value Marketable Securities

An analysis of the fair value of securities owned by term to maturity is as follows:

	Term to maturity		March 31,	March 31,
	Within 1 year	Over 1 year	2021 Total	2020 Total
Broker warrants	$ 495,849	$ 1,341,192	$ 1,837,041	$ 163,219
Common shares	29,601	–	29,601	–
Bonds	71,181,430	–	71,181,430	8,998,110

5. Introducing broker agreements

In accordance with the terms of the agreements with NBIN and Apex Clearing, the Company must maintain a minimum of CDN $250,000 and US $250,000 (in the form of cash or short term Government of Canada bonds) in a capital deposit account to be held by the Carrying Broker and Apex Clearing as long as the agreement is in effect and as such is not available for use by the Company. The Company currently maintains a Canadian Treasury bill with a value of $250,000 with NBIN and US $250,000 cash with Apex Clearing.

The Company may be required to provide additional funds should the Carrying Broker's margin requirements change. NBIN is a regulated entity under the jurisdiction of IIROC and a member of the CIPF. Apex Clearing is a regulated entity under the jurisdiction of FINRA and a member of the SIPC.

The $764,364 receivable (March 31, 30, 2020 - $885,666) from the Company's Carrying Brokers represents amounts due from NBIN and Apex Clearing for commissions earned and short inventory positions in the market makers accounts.

The $77,175 payable (March 31, 2020 - $57,251) to the Company's Carrying Brokers represents amounts due to NBIN and Apex Clearing for clearing trades and long inventory positions.

6. Property and equipment

	Furniture, artwork and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
Cost:					
At March 31, 2019	$ 1,101,074	$ 551,172	$ 90,445	$ 2,900,959	$ 4,643,650
Additions	6,698	24,637	–	–	31,335
At March 31, 2020	$ 1,107,772	$ 575,809	$ 90,445	$ 2,900,959	$ 4,674,985
Additions	–	5,265	–	–	–
At March 31, 2021	$ 1,107,772	$ 581,074	$ 90,445	$ 2,900,959	$ 4,680,250

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

	Furniture, artwork and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
Accumulated amortization:					
At March 31, 2019	$ 769,295	$ 496,135	$ 90,445	$ 1,690,322	$ 3,046,197
Amortization	55,559	37,046	–	230,598	323,203
At March 31, 2020	$ 824,854	$ 533,181	$ 90,445	$ 1,920,920	$ 3,369,400
Amortization	47,613	24,893	–	241,536	314,042
At March 31, 2021	$ 872,467	$ 558,074	$ 90,445	$ 2,162,456	$ 3,683,442
Carrying value					
March 31, 2020	$ 282,918	$ 42,627	$ –	$ 980,039	$ 1,305,585
March 31, 2021	$ 235,305	$ 23,000	$ –	$ 738,503	$ 996,808

7. Share capital

Details of the Company's share capital are as follows:

(a) 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;

(b) Issued:

	Shares	Amount
Class A shares		
Balance, beginning of year April 1, 2019	3,386,000	$ 4,414,143
Shares issued during the year	–	–
Repurchased during the year	–	–
Balance, end of year March 31, 2020	3,386,000	$ 4,414,143
Class A shares		
Balance, beginning of year April 1, 2020	3,386,000	$ 4,414,143
Shares issued during the year	15,000,000	15,000,000
Repurchased during the year	–	–
Balance, end of year March 31, 2021	18,386,000	$ 19,414,143

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

	Shares	Amount
Class B shares		
Balance, beginning of year April 1, 2019	2,493,432	$ 1,977,532
Shares issued during the year	100,000	230,000
Repurchased during the year	(266,000)	(554,680)
Share purchase loan	–	190,415
Balance, end of year March 31, 2020	2,327,432	$ 1,843,267
Class B shares		
Balance, beginning of year April 1, 2020	2,327,432	$ 1,843,267
Shares issued during the year	–	–
Repurchased during the year	–	(780,000)
Balance, end of year March 31, 2021	2,327,432	$ 1,063,267

8. PILOT and Income taxes

The provision for income taxes varies from that calculated by applying the combined statutory Canadian federal and provincial income tax rate as follows:

	March 31, 2021	March 31, 2020
Statutory income tax rate	nil%	25.98%
Expected income tax expense(recovery)	$ –	$(1,260,991)
Effect of:		
Impact of change in tax rate	–	987,370
Small business deduction	–	–
Non-taxable income/ non-allowable expenses	–	94,465
Other	–	202
	$ –	$ (178,954)
Current income taxes(recovery)	$ –	$ (250,959)
Deferred income taxes (recovery)	–	72,005
	$ –	$ (178,954)

As of March 31, 2020, and in connection with ATB Capital Markets becoming a Crown corporation (note 1), the Company is now exempt from income tax and will be subject to PILOT. Pursuant to the ATB Act, the Government of Alberta may assess a charge to ATB as prescribed by the ATB Regulation. The ATB Regulation defines the change to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. PILOT is calculated as 23% of net income reported under IFRS.

For the year ended March 31, 2021, ATB CMI accrued $2,427,978 (March 31, 2020 - $nil) related to PILOT. Amounts owing for PILOT are not subject to interest and are paid to ATB within three months of year end.

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

9. Cross guarantee

Coincident with ATB Financials' acquisition of controlling ownership of the Company , ATB Securities Inc. and the Company (the "Guarantors") entered into a Uniform Guarantee by Members and Related Companies Agreement (the "Agreement").

IIROC rules require the Company and ATB Securities Inc. by virtue of common ownership, to guarantee the debts, liabilities, and obligations of their respective customers who are eligible for protection by CIPF in accordance with the terms contained therein.

The Agreement sets the guarantee amount as a percentage of regulatory capital. The maximum guarantee of each Guarantor is equal to its regulatory capital at the time any demand is made. Management believes the risk of loss under this agreement is remote. As of March 31, 2021, and 2020 no demands have been made under the Agreement and the maximum amount of the Company's guarantee under the Agreement is $nil.

10. Financial instruments

i) Fair value hierarchy

The fair value of financial assets and liabilities not carried at fair value approximate their carrying amounts due to the imminent or short term maturity of these financial assets and liabilities.

When available, quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs, are used to determine fair value. For financial instruments not traded in an active market, the fair value is determined using appropriate and reliable valuation techniques. Such techniques may include recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Valuation techniques may require the use of estimates or management assumptions if observable market data is not available. When the fair value cannot be reliably measured using a valuation technique, then the financial instrument is measured at cost.

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The three levels of fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liabilities either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial assets and liabilities measured at fair value as at March 31, 2021, and March 31, 2020 are summarized below:

March 31, 2021	Level 1	Level 2	Level 3	Total
Cash	$ 9,178,403	$ -	$ -	$ 9,178,403
Marketable securities at fair value	71,211,031	1,837,041	-	73,048,072
Deposits with carrying brokers	572,975	-	-	572,975
Liability to issuer	(35,184,800)	-	-	(35,184,800)
	$ 45,777,609	$ 1,837,041	$ -	$ 47,614,650

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

March 31, 2020	Level 1	Level 2	Level 3	Total
Cash	$ 4,783,149	$ -	$ -	$ 4,783,149
Marketable securities at fair value	9,021,637	139,692	-	9,161,329
Deposits with carrying brokers	609,202	-	-	609,202
Liability to issuer	-	-	-	-
	$ 14,413,988	$ 139,692	$ -	$ 14,553,680

There have been no transfers between fair value hierarchy levels during the quarter. The fair values of other financial instruments including accounts receivable and due from carrying broker approximate their carrying amounts due to their imminent or short term maturity.

ii) Financial Risk Management

ATB CMI's financial instruments are represented by cash, marketable securities owned and sold short at fair value, accounts receivable, due to (from) carrying broker, deposits with carrying broker, liability to issuer, and accounts payable and accrued liabilities and subordinated loan. There are various risks inherent in financial instruments including market risk (which consists of fair value risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. ATB CMI's overall risk management program focuses on the unpredictability of financial and economic markets, and seeks to minimize potential adverse effects on ATB CMI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices. The Company segregates market risk into three categories: fair value risk, interest rate risk and foreign exchange risk.

Fair value risk: The Company is exposed to fair value as a result of its participation in corporate financing bought deals and through securities owned. Securities held for trading are valued based on quoted bid market prices, net of any valuation allowance and, as such, changes in fair value affect income as they occur. The Company mitigates its fair value risk exposure through controls to limit concentration levels and capital usage within its inventory account.

March 31, 2021 value	Carrying value	Effect of a 10% increase in the fair value	Effect of a 10% decrease in the fair
Marketable securities	$ 73,048,072	$ 7,304,807	$ (7,304,807)

March 31, 2020 value	Carrying value	Effect of a 10% increase in the fair value	Effect of a 10% decrease in the fair
Marketable securities	$ 9,161,329	$ 916,132	$ (916,132)

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

Interest Rate Risk: Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Company. The Company incurs interest rate risk on its own cash balances. All cash matures within two months. The Company does not hedge its exposure to interest rate risk as it is minimal. The Company has a subordinated loan with a variable interest rate.

The increase or decrease in income for each 100 basis points change in interest rates on cash and cash equivalents, assuming all other variables remain constant, is not material. An increase or decrease in income for each 100 basis points change in interest on the subordinated loan, assuming all other variables remain consistent, would be $100,000 (March 31, 2020 - $131,250).

Foreign exchange risk: Foreign exchange risk arises from the possibility that changes in the exchange rates for foreign currencies will result in losses. The Company is exposed to foreign exchange risk to the extent of balances, transactions and cash flows that occur in US dollars.

The following table summarizes the effect on net income of a 10% fluctuation in the value of the US dollar on US dollar balances held as at March 31, 2021. This analysis assumes all other variables remain constant.

March 31, 2021	Carrying value	Effect of a 10% increase in the value of the US $	Effect of a 10% decrease in the value of the US $
Net unhedged balance sheet exposure to US $	$ 4,732,535	$ 473,253	$ (473,253)

March 31, 2020	Carrying value	Effect of a 10% increase in the value of the US $	Effect of a 10% decrease in the value of the US $
Net unhedged balance sheet exposure to US $	$ 3,461,789	$ 346,178	$ (346,178)

Credit Risk

Credit risk is the risk of loss associated with a counterparty’s liability to fulfill its payment obligations. Credit risk arises from cash, marketable securities at fair value, accounts receivable and due from carrying broker. The Company mitigates credit risk by monitoring credit exposures, obtaining collateral and limiting transactions with counterparties based on an ongoing assessment of the counterparties’ creditworthiness. The maximum exposure of the Company to credit risk before taking into account any collateral held or other credit enhancements is the carrying values of the financial instruments as disclosed in the consolidated financial statements as at March 31, 2021 and March 31, 2020.

The Company is also exposed to the risk that counterparties to transactions do not fulfill their obligations. Counterparties primarily include the Company’s Carrying Brokers, investment dealers and financial institutions. As at March 31, 2021, the Company’s most significant concentration is with investment dealers and its financial institution (2020 - investment dealers and its financial institution); accounts receivable are subject to additional concentration of credit risk from 8 debtors (March 31, 2020 – 16 debtors) comprising 25% (March 31, 2020 – 56%) of the carrying amount. Management believes that this is in the normal course of business and does not anticipate loss for non-performance.

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they become due, as well as ensuring that adequate funds exist to support business strategies and operational growth. The Company's business requires capital for operating and regulatory purposes. Total current assets reflected on the consolidated balance sheet amount to $88,235,117 which exceed current liabilities (excluding subordinated loan) of $54,113,410 that are anticipated to be paid within 12 months from the date of the consolidated balance sheet. Additionally, the Company has a subordinated loan of $10,000,000 owing to ATB Financial Inc.

11. Due from (to) Affiliates

In the normal course of operations, ATB CMI collects a management fee from ATB Capital Markets USA. The amounts are duly recorded as payable and receivable in each of the companies. The amounts that are due from affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges. These amounts are eliminated on a consolidated basis.

12. Due to ATB

In the normal course of operations, ATB pays certain expenses on behalf of ATB Capital Markets. The amounts due to ATB are generally settled within three months.

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. PILOT is calculated as 23% of net income reported under IFRS.

The total amounts due to ATB arising from transactions with ATB are as follows:

	March 31, 2021	March 31, 2020
Due from/(to) ATB - PILOT	$ (2,427,978)	$ -
Due from/(to) ATB - Other	(1,019,751)	(165,000)
Due from/(to) ATB	$ (3,447,729)	$ (165,000)

In 2021 the Company signed a service level agreement with ATB financial made effective April 1, 2020. The transactions included are part of 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. For the year ended March 31, 2021, the company incurred $11,961,654 related to this agreement, this includes the Other amount above.

13. Related party transactions

During the year ended March 31, 2021, the Company incurred $751,301 (2020 - $893,960) in interest expense on a subordinated loan provided by ATB. This amount is included in interest expense on the consolidated statement of income and comprehensive income. The subordinated loan balance bears interest of ATB prime plus .25% per annum, and the effective rate of interest for 2021 was 4.13% (2020 – 6.21%). There is no security on this loan. Subordinated loans are allowable assets in computing RAC to the extent that such loans are required for the Company's continued compliance with IIROC regulatory requirements and may be repaid

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

only with prior approval of the IIROC and 90 days notice by either party. The fair value of subordinated loans approximates carrying value.

	March 31, 2021	March 31, 2020
Loan balance, beginning of year	$ 13,125,000	$ 13,750,000
Additional borrowing	41,875,000	5,000,000
Repayments	(45,000,000)	(5,625,000)
Balance, end of year	$ 10,000,000	$ 13,125,000

As at March 31, 2021, $nil was owed to ATB Financial Mastercard (2020 - $23,306).

During the year ended March 31, 2020 the Company paid ATB Financial rent of $1,022,293 (2020 - $1,063,807).

On April 1, 2018, the Company signed an agreement with ATB Financial in which the Company agreed to pay ATB an incremental compensation as the result of certain joint client activities with the Company. During the year ended March 31, 2021 the Company paid $nil (2020 - $100,000) in allocation fees.

The Company has a long-term operating lease with respect to its Calgary premises, which expires April 30, 2025 and its Toronto premises which expires February 28, 2022. The leases contain a monthly charge for the common operating costs.

Shareholders, Directors and other Key Management Personnel:

During the year ended March 31, 2021, the Company incurred $2,997,208 in compensation and other short-term benefits to key management personnel (2020 - $2,385,970). No other benefits have been provided.

Officers, directors, employees and their related companies conduct business with the Company on substantially similar terms and conditions as external clients, subject to regulatory requirements.

14. Capital management

The Company requires capital for operating and regulatory purposes, including the funding of existing and future operations and for maintaining sufficient regulatory capital. The fundamental components of the Company's capital structure include shareholders' equity, which consists of share capital, accumulated other comprehensive income and retained earnings. The following table summarizes the Company's capital as at March 31, 2021:

Type of capital	Carrying amount
Share capital	$ 20,477,410
Accumulated other comprehensive income	153,510
Retained earnings (deficit)	5,541,130
Total shareholders' equity	$ 26,171,950

The Company's capital management objectives and policies are designed to ensure that an adequate level of capital is maintained at all times to support current and future operations, to meet all financial obligations and to comply with the rules of IIROC and FINRA. The Company is required to maintain a prescribed minimum level of Risk Adjusted Capital ("RAC") of $250,000 calculated in accordance with such requirements as IIROC

ATB CAPITAL MARKETS INC.

Notes to Consolidated Financial Statements
For the year ended March 31, 2021
(in Canadian dollars)

may from time to time prescribe. The Subsidiary is subject to Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission. The Subsidiary computes its net capital under the basic method and is required to maintain minimum net capital, as defined, equal to the greater of $250,000 or 6 2/3% of aggregate indebtedness, as defined, at all times. The uses of capital which require monitoring on a daily basis include outstanding trades and security positions, underwriting commitments and with these requirements may require the Company to keep sufficient cash and other liquid assets on hand to maintain regulatory capital requirements rather than using these liquid assets in connection with its business. The Company and its Subsidiary were in compliance with all of the minimum regulatory capital requirements to which it is subject as at March 31, 2021 and March 31, 2020.

15. Subsequent Event

The Company has evaluated the effects of events that have occurred subsequent to the year ended March 31, 2021 and through to May 7, 2021, which is the date the financial statements were issued. During this period, there have been no events that would require recognition in or disclosure in the financial statements. While the world economy still is feeling the impact of COVID-19, the Company continues to monitor developments in equity and fixed income markets.

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Credit Union Deposit Guarantee Corporation

Financial Statements

December 31, 2020

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Independent Auditor's Report

Auditor General
OF ALBERTA

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

Opinion

I have audited the financial statements of the Credit Union Deposit Guarantee Corporation (the Corporation), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Credit Union Deposit Guarantee Corporation 2020 Annual Report*, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance. I have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

March 10, 2021
Edmonton, Alberta

Statement of Financial Position

As at December 31

(Thousands of dollars)

	Notes	2020	2019
ASSETS			
Cash and cash equivalents	4	$ 6,435	$ 5,043
Assessments receivable		2,193	2,098
Accrued interest receivable and prepaid expenses		1,280	1,419
Investments	5,6	420,296	387,114
Right-of-use asset		345	344
Property, equipment and intangible assets		120	180
TOTAL ASSETS		**430,669**	**396,198**
LIABILITIES			
Accounts payable and accrued liabilities		$ 667	$ 814
Currrent tax payable		1,338	269
Lease liability		346	345
Deferred tax liability		2,820	497
Unclaimed credit union balances	8	2,530	2,277
TOTAL LIABILITIES		**7,701**	**4,202**
EQUITY			
Deposit guarantee fund		$ 413,167	$ 390,825
Accumulated other comprehensive income		9,801	1,171
TOTAL EQUITY		**422,968**	**391,996**
TOTAL LIABILITIES AND EQUITY		**$ 430,669**	**$ 396,198**
Provision for financial assistance	7		
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 10, 2021

Original signed by
John McGowan
Board Chair

Original signed by
Ken Morris
Chair, Audit and Finance Committee

Statement of Comprehensive Income

For the years ended December 31

(Thousands of dollars)

	Notes	2020	2019
Revenue			
Assessment revenue	9	$ 11,564	$ 18,636
Investment income	9	19,590	12,864
		31,154	**31,500**
Expenses			
Administration expenses	10	6,444	6,607
		6,444	**6,607**
Income before income taxes		24,710	24,893
Income tax expense	13	2,368	1,255
NET INCOME		**$ 22,342**	**$ 23,638**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that will be reclassified to net income			
Net unrealized gain on fair value through other comprehensive income financial instruments			
Other comprehensive income		$ 15,475	$ 5,256
Income tax		(2,748)	(1,129)
Reclassification to net income, net of tax		(4,097)	(291)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**8,630**	**3,836**
COMPREHENSIVE INCOME		**$ 30,972**	**$ 27,474**

The accompanying notes are part of these financial statements.

Statement of Change in Equity

For the years ended December 31

(Thousands of dollars)

	Deposit Guarantee Fund	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance as at December 31, 2018	**$ 367,187**	**$ (2,665)**	**$ 364,522**
Net income	23,638	-	23,638
Other comprehensive income, net of tax	-	3,836	3,836
Balance as at December 31, 2019	**$ 390,825**	**$ 1,171**	**$ 391,996**
Net income	22,342	-	22,342
Other comprehensive income, net of tax	-	8,630	8,630
Balance as at December 31, 2020	**$ 413,167**	**$ 9,801**	**$ 422,968**

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the years ended December 31

(Thousands of dollars)

	2020	2019
Operating activities:		
Net income	$ 22,342	$ 23,638
Adjustments for:		
Amortization	85	107
Loss on disposal of property and equipment	1	-
Investment income	(9,707)	(2,994)
Bond pool fair value adjustment	(2,660)	(2,611)
Impairment loss	(7)	12
Deferred income taxes	473	530
Depreciation of right-of-use asset	207	206
Lease interest	7	10
(Increase) Decrease in assessments receivable	(95)	1,451
Decrease (Increase) in accrued interest receivable and prepaid expenses	139	(77)
Increase in current tax payable	1,070	942
Increase in right of use assets	1	-
(Decrease) Increase in accounts payable and accrued liabilities	(147)	364
Increase (Decrease) in long-term unclaimed credit union balances	253	(211)
Cash flows from operating activities	**11,962**	**21,367**
Investing activities:		
Purchase of investments	(156,822)	(133,013)
Proceeds from sales of investments	146,492	112,998
Purchase of property, equipment and intangible assets	(26)	(26)
Cash flows used in investing activities	**(10,356)**	**(20,041)**
Financing activities:		
Lease payments	(214)	(215)
Cash flows used in financing activities	**(214)**	**(215)**
Increase in cash and cash equivalents	**1,392**	**1,111**
Cash and cash equivalents, at beginning of year	5,043	3,932
Cash and cash equivalents, at end of year	**$ 6,435**	**$ 5,043**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Thousands of dollars

1. NATURE OF ORGANIZATION

The Credit Union Deposit Guarantee Corporation ("the Corporation") was established in 1974 and operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. It is a provincial agency without share capital. The mandate of the Corporation is to provide risk-based regulatory oversight and a deposit guarantee to enable a safe and sound credit union system in Alberta.

The Corporation is located in Canada. The address of the Corporation's office is 20th Floor, 10104 – 103 Avenue, Edmonton, Alberta T5J 0H8.

To fulfill its mandate the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund ("the Fund"). The Corporation is funded by assessments from credit unions.

The *Credit Union Act* provides that the Government of Alberta ("the Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2020, credit unions in Alberta held deposits, including accrued interest, totaling $23,726,118 (2019: $22,215,503).

In cases where a credit union is experiencing financial difficulty, the Corporation implements an intervention strategy that may result in placing the credit union under supervision. The Corporation provides financial assistance, support and direction in planning, policy and operational matters for supervised credit unions

2. BASIS OF PRESENTATION

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were approved by the Board of Directors on March 10, 2021.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and expressed in thousands of dollars.

The Corporation presents its Statement of Financial Position in order of liquidity.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Under IFRS 9, the Corporation classifies and measures its financial assets as:

- amortized cost.
- fair value through other comprehensive income (FVOCI).
- fair value through profit and loss (FVTPL).

The classification and measurement for financial assets are based on the Corporation's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest (SPPI).

The Corporation determines its business model that best reflects how the financial assets are managed based on observable factors and relevant objective evidence. The Corporation has determined its business models as follows:

- Held-to-collect: Assets held to collect the contractual principal and interest cash flows.
- Held-to-collect-and-sell: Both collecting contractual cash flows and selling are fundamental to achieving the objective of the business.
- Other business model: Neither of the above and represent business objectives where assets are managed on a fair value basis.

Notes to Financial Statements

Thousands of dollars

Financial assets are measured at amortized cost if they are held within the held-to collect business model and the contractual cash flows pass the SPPI test.

Financial assets in the held-to-collect-and-sell business model where the contractual cash flows meet the SPPI test are measured at FVOCI. The financial assets measured at FVOCI are recorded at fair value with unrealized gains and losses included in AOCI until realized when the cumulative gain or loss is transferred to net income. Interest income and impairment losses, are recognized in Statement of Comprehensive Income.

Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the financial assets is recognized in the Statement of Comprehensive Income in the period in which it arises.

The Corporation elected, at initial recognition, to irrevocably designate equity investments at FVOCI. The fair value changes are recorded in OCI, with any gains or losses when selling the asset not reclassified in profit or loss. Dividend income is recorded in Statement of Comprehensive Income.

Impairment of Financial Assets

The Corporation recognizes expected credit loss (ECL) for financial assets classified as FVOCI and amortized cost.

For financial assets classified as FVOCI, the Corporation uses a model to calculate the loss allowance that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The calculated ECL does not reduce the carrying amount in the Statement of Financial Position, which remains at fair value. Instead, the allowance is recognized in OCI with a corresponding charge to Statement of Comprehensive Income.

The Corporation assesses quarterly whether the financial assets classified as FVOCI have experienced a significant increase in credit risk. Since the financial assets measured at FVOCI are investment grade and considered low credit risk, the Corporation measures loss allowance at 12-month ECL, instead of lifetime ECL.

A simplified approach of the expected loss model is applied to trade receivables that do not contain a significant financing component. The simplified approach does not require the tracking of changes in credit risk but requires the recognition of lifetime ECLs at all times. The Corporation applied the simplified approach and used a provision matrix as a practical expedient for determining ECLs on trade receivables.

Financial Liabilities

Financial liabilities are classified and measured at amortized cost.

Effective Interest Method

The Corporation uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

Notes to Financial Statements

Thousands of dollars

Property, Equipment and Intangible Assets

Property, equipment and intangible assets are recorded in the Statement of Financial Position at historical cost, less accumulated depreciation, amortization and impairment losses.

Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully depreciated are maintained on the books at original cost less accumulated depreciation and show zero net book value until they are disposed of at which time they are removed from the books.

Depreciation and impairment losses are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight line
Leasehold improvements	Straight line over lease term
Intangible assets [1]	
Software without maintenance agreement	Three year straight line
Software with maintenance agreement	Five year straight line

[1] Intangible assets include the purchase of computer software

Gains and losses on disposal of property, equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property, equipment and intangible assets.

Provision for Financial Assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamations, arrangements, liquidations or dissolutions. The Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.
3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the inherent risk in the credit union system.

Notes to Financial Statements

Thousands of dollars

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis for potential liabilities includes a review of all credit unions based on key financial and risk information and provisions related to amalgamations or arrangements and any indemnity agreements.

Revenue Recognition

Assessment Revenue

Credit union deposit guarantee assessments are classified as revenue and are recognized when:

- The amount of revenue can be measured reliably.
- 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 quarterly.

Investment Income

Interest and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to principal outstanding at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when it is known that a dividend has been declared.

Employee Benefits

Defined Contribution Plan

The Corporation has a defined contribution plan and pays fixed contributions to a service provider with no legal or constructive obligation to pay further amounts. The contributions to the registered retirement saving plans are recognized as an employee benefit expense on the Statement of Comprehensive Income in the periods during which services are rendered by employees.

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.

Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes deposit guarantee assessments and financial assistance recoveries and no deduction may be made for financial assistance payments.

The Corporation records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the federal and provincial taxation authorities.

Current Tax

The current tax assets and liabilities are based on taxable income for the year. Taxable income differs from net income as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or

Notes to Financial Statements
Thousands of dollars

deductible in other years and items that are never taxable or deductible. The Corporation's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of temporary taxable differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")

Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on investments classified as FVOCI.

Amounts recognized in other comprehensive income will eventually be transferred to the Statement of Comprehensive Income and reflected in net income as gains or losses once FVOCI investments are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. The Statement of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statement of Financial Position.

Leases

The Corporation assesses whether a contract is or contains a lease at inception of a contract. The Corporation recognizes a right-of-use asset (ROU) and a corresponding lease liability for all lease agreements in which it is the lessee, except for short-term leases and leases of low-value assets. For these leases, the Corporation recognizes the lease payments as an operating expense.

ROU asset is measured at cost and depreciated on a straight-line basis to the end of the useful life of the ROU asset or the end of the lease term. Impairment is assessed when such indicators exist.

Lease liability is measured at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.

All exercised lease options (termination and extension) are assessed to determine required modifications to the right of use assets and lease liabilities.

Notes to Financial Statements

Thousands of dollars

3.2 CHANGES IN ACCOUNTING POLICIES

IAS 1 – Presentation of Financial Statements; and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

The International Accounting Standards Board (IASB) has issued amendments to IAS 1 and IAS 8 to clarify the definition of material and to align the definition used in the Conceptual Framework and the standards themselves. "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The financial statements and note disclosures were prepared with consideration to the amended definition of material.

IFRS 16 – Leases - Amendment to IFRS 16 regarding COVID-19-related rent concessions

The IASB published COVID 19-Related Rent Concessions (Amendment to IFRS 16), amending the standard to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. The amendment has no impact on the Corporation's financial statements.

3.3 FUTURE CHANGES IN ACCOUNTING POLICIES

The following standard is not yet effective for the year ended December 31, 2020.

IFRS 17 — Insurance Contracts

The IASB issued amendments to IFRS 17 (Insurance Contracts) in November 2020. IFRS 17 sets out the requirements for a company reporting information about insurance contracts it issues and reinsurance contracts it holds. The amendment is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and to be applied retrospectively. The Corporation does not issue insurance contracts or hold reinsurance contracts, therefore the standard has no impact on the Corporation's financial statements.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are on deposit in the bank account and 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, 2020 securities held in CCITF have a rate of return of 0.6% per annum (2019: 1.8%).

5. INVESTMENTS

The fair value of the Corporation's investments is summarized below:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Investment securities measured at:				
FVOCI - segregated portfolio	$ 347,025	$ 335,110	$ 320,424	$ 318,994
FVTPL - bond pool	73,156	69,406	66,575	65,486
FVOCI (designated) - equity instruments	115	115	115	115
Total	**$ 420,296**	**$ 404,631**	**$ 387,114**	**$ 384,595**

Notes to Financial Statements

Thousands of dollars

The fair value of the segregated portfolio is summarized below:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Directly held				
Securities issued or guaranteed by:				
Canada	$ 120,736	$ 116,236	$ 101,042	$ 101,417
Provinces	125,713	121,505	87,474	86,576
Financial institutions	53,855	52,097	86,626	85,834
Asset backed securities	46,721	45,272	45,282	45,167
Total	**$ 347,025**	**$ 335,110**	**$ 320,424**	**$ 318,994**

Fair Value Hierarchy

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

Level 1:	The fair value is based on quoted prices in active markets.
Level 2:	The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	The fair value is based on inputs that are not based on observable market data.

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities measured at:								
FVOCI - segregated portfolio	$ 120,736	$ 226,289	$ -	$ 347,025	$ 93,856	$ 226,568	$ -	$ 320,424
FVTPL - bond pool	-	73,156	-	73,156	-	66,575	-	66,575
FVOCI (designated) - equity instruments	-	-	115	115	-	-	115	115
Total	**$ 120,736**	**$ 299,445**	**$ 115**	**$ 420,296**	**$ 93,856**	**$ 293,143**	**$ 115**	**$ 387,114**

There were no transfers (2019: Nil) between Level 1 and 2 nor were there changes to the Level 3 assets in the period.

Notes to Financial Statements

Thousands of dollars

Valuation Technique and Inputs

Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The valuation technique and key inputs used for Level 2 securities for fixed income securities and the Bond Pool are based on a vendor hierarchy:

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.
- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

Fair Value Classification of Bond Pool

The Corporation owns units in the Bond Pool and is considered to have exposure to the risks and benefits of those units in the pool and not the underlying investments. The classification of the Bond Pool is therefore determined based on the level that represents the most significant portion of the underlying investments in the entire pool. As a result, the value of the Bond Pool is categorized as Level 2.

Fair Value Measurement of Shares

The Corporation has designated the shares with Credit Union Central Alberta Limited ($100) and Concentra Bank ($15) as FVOCI. They have no specific maturity, are not quoted nor traded in an active market, the shares are issued and redeemed at par value, and there is no observable market data with which to reliably measure a fair value. There are no identifiable observable inputs and thus no inputs from which to determine the relationship to or sensitivity of fair market value to changes in unobservable inputs. During the year, there were no changes to the valuation of the shares.

6. INVESTMENT RISK MANAGEMENT

The Corporation established an investment policy that is reviewed annually by the Board. In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages Alberta Investment Management Corporation ("AIMCo"), an experienced investment manager, to manage the portfolio. Compliance with the investment policy is monitored by the investment manager and management, and is reported to the Audit and Finance Committee on a quarterly basis.

The Corporation has a segregated investment portfolio and owns units in a Bond Pool established and managed by AIMCo. The segregated portfolio consists of high quality Canadian fixed income and debt related investments. The Bond Pool primarily consists of investment grade securities. The Bond Pool has a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units. The Corporation's units in the Bond Pool represents approximately 0.7% (2019: 0.6%) of the Bond Pool's outstanding units.

As at December 31, 2020, securities directly held (excluding the Bond Pool) have an average effective market yield of 0.7% per annum (2019: 2.1%) based on fair value. As at December 31, 2020, securities held by the Bond Pool have an average effective market yield of 1.9% per annum (2019: 2.9%).

Notes to Financial Statements

Thousands of dollars

The Corporation's rate of return objective is to earn an average return over a rolling four year period on the aggregate investment portfolio of 25 basis points ("bps") greater than the benchmark. As of December 31, 2020, the average return over a rolling four year period over the policy benchmark is 30 bps (2019: 52 bps).

The Corporation's investments are exposed to financial risks including credit risk, interest rate and liquidity risk. The Corporation has risk management processes to monitor and address risks.

i) Credit Risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to discharge its contractual obligation. The Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. For the segregated portfolio, the Corporation only invests in issuers of debt instruments with a credit rating of A or higher for federal and provincial investments, AA or higher for financial institutions, AAA for asset backed securities and A or higher for infrastructure from recognized credit rating agencies: S&P Global Ratings ("S&P") or Dominion Bond Rating Service ("DBRS"). DBRS is used to rate most fixed income investments, followed by S&P.

The following table shows the credit risk exposure of the segregated portfolio at the end of the reporting period.

	2020			2019		
Credit Rating	Fair Value	Book Value	% of Value	Fair Value	Book Value	% of Value
AAA	$ 167,458	$ 161,508	48.3%	$ 146,323	$ 146,584	45.7%
AA (From AA+ to AA-)	178,113	172,146	51.3%	170,487	168,893	53.2%
A (From A+ to A-)	1,454	1,456	0.4%	3,614	3,517	1.1%
Total	**$ 347,025**	**$ 335,110**	**100.0%**	**$ 320,424**	**$ 318,994**	**100.0%**

Note: Excludes Credit Union Central Alberta Limited ($100) and Concentra Bank ($15) shares as there is no credit risk associated with these equities.

The credit risk within the Bond Pool is managed by AIMCo in accordance with their statement of investment policies and guidelines. The securities in the Bond Pool are primarily of investment grade quality.

The ECL for the segregated portfolio is $37 (2019: $44). The segregated portfolio consists of investment grade securities. For investment grade securities, ratings on such investments do not significantly change over a short period. As such the expected credit loss are recognized only in respect of default events that are possible within the next 12 months. The following table shows the breakdown of ECL per credit rating.

Credit Rating	2020 12-month ECL value	2019 12-month ECL value
AA	$ 36	$ 35
A	1	9
Total	**$ 37**	**$ 44**

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Thousands of dollars

ii) Interest rate risk

As investments are carried at fair value, they are exposed to fluctuations in fair value. The Corporation is exposed to interest rate fluctuation as a result of normal market risk. This can affect cash flows, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. To mitigate the interest rate risk, the Corporation's portfolio is positioned defensively on interest rates with shorter duration relative to its benchmark with a view that the current low yield environment is not sustainable, especially in Canada. A one percent increase or decrease is used when reporting interest rates to represent management's assessment of a possible change in interest rates. An increase or decrease of one percent would result in a decrease or increase of $22,405 (2019: $19,878) in the fair value of total investment if all other variables are constant.

iii) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's funding requirements in delivering its mandate of regulating the credit unions and guaranteeing the deposits at the credit unions. The Corporation's principal sources of funds are cash generated from credit union deposit guarantee assessments and interest earned on its investments. The assessment revenue and investment income support the normal operations of the Corporation. The Fund is invested conservatively and a draw from the Fund is only done when needed. The term structure for the segregated portfolio is unchanged from last year wherein 55% is under 1 to 5 years and 45% of the portfolio is over 5 years.

The investment in units of the Bond Pool can be liquidated on a timely basis.

7. PROVISION FOR FINANCIAL ASSISTANCE

The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 3: Provision for Financial Assistance. The provision is based on expected loss calculation and is subject to uncertainty surrounding the amount. The expected timing of outflows of economic benefit is dependent on future events. The Corporation used judgment and gave consideration to the impact of the COVID-19 pandemic, significant decline in oil prices and volatility and uncertainty in the economy in determining the provision for financial assistance. As such, actual losses may differ significantly from estimate.

There were no indemnification agreements outstanding with credit unions in 2020.

8. UNCLAIMED CREDIT UNION BALANCES

The unclaimed credit union balances are customer accounts, transferred from credit unions after ten years of inactivity, to the Corporation. The amounts earn monthly interest calculated using the prescribed rate by the *Credit Union Act*. The interest rate used in 2020 is 1% (2019: 1%). After a period of 20 years since an unclaimed balance was transferred to the Corporation without any valid claim having been made, the balance will be transferred to the Province's General Revenue Fund. After that transfer, the person(s) entitled to that money can no longer make a claim. The Corporation transferred $26 (2019: $320) in unclaimed balances to the Province's General Revenue Fund on December 31, 2020.

9. REVENUE

Assessment Revenue

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. The assessment rate is reviewed every three years provided the fund size is within the operating range of 1.40% to 1.60%. The assessment rate was reviewed in 2019, which resulted in the reduction of the assessment rate from 0.09% to 0.05% effective November 1, 2019. Assessment rate in 2020 is 0.05% of credit unions' deposits and borrowings.

Assessments received by the Corporation from the largest credit union represent 60% of the total assessments received.

Notes to Financial Statements

Thousands of dollars

Investment Income

The investment income is as follows:

	2020	2019
Investment and other income	$ 11,926	$ 9,899
Net gain on sale of investments	4,997	366
Fair value adjustments on FVTPL	2,660	2,611
Impairment recovery (loss)	7	(12)
Total investment income	**$ 19,590**	**$ 12,864**

10. ADMINISTRATION EXPENSES

	2020	2019
Salaries and benefits	$ 4,773	$ 4,738
Professional fees	491	449
Occupancy	469	467
Office	224	229
Employee related expenses	180	154
Board and committee fees	151	196
Depreciation and amortization	85	107
Employee travel	35	139
Other	25	31
Board and committee expenses	11	97
Total administration expenses	**$ 6,444**	**$ 6,607**

11. RETIREMENT BENEFIT PLANS

The Corporation maintains a defined contribution plan for its employees where the cost is charged to expenses when recognized. The Corporation contributes 9% (2019: 9%) of the employees' gross salary including any paid vacation pay to each employee's Registered Retirement Savings Plan (RRSP) and the employee contributes a required minimum of 3% (2019: 3%). Participation is compulsory for all permanent employees. The RRSP deductions are remitted monthly to the administrator of the group plan. In 2020, the Board approved an ad-hoc top-up contribution to the employer's contribution.

The Corporation also maintains a Retirement Compensation Arrangement Plan (RCA Plan), where cost is charged to the Statement of Comprehensive Income. Half of the contributions for an eligible employee are deposited in the RCA Plan. The other half of the contributions are forwarded to Canada Revenue Agency, held in a non-interest bearing refundable tax account. The contributions are calculated annually up to a maximum amount.

The total expense recognized in the Statement of Comprehensive Income of $472 (2019: $525) represents contributions paid to these plans by the Corporation. As at December 31, 2020, $74 contributions (2019: $29) was payable to the plan.

The Corporation does not have any defined benefit plans.

Notes to Financial Statements

Thousands of dollars

12. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with AIMCo, an Alberta Crown Corporation, and departments of the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at negotiated market prices under normal trade terms and conditions are incidental and not disclosed. Investment management fees paid to AIMCo is $325 (2019: $353).

The Corporation is governed by the *Credit Union Act*, and the Province appoints the Board of Directors. The Board Chair of the Corporation reports directly to the President of Treasury Board and Minister of Finance. The Corporation applied the exemption set out in IAS 24 – Related Party Disclosures regarding the disclosure of transactions with a related government and its related entities. The transactions carried out with the Province and its related entities are investment activities involving bonds issued by the Province and are carried out under normal market conditions. The Corporate Investment policy was revised to exclude Alberta government bonds in the segregated portfolio. In 2020, there are no Alberta government bonds (2019: $12,400) in the segregated portfolio.

The Board of Directors, executives and their immediate family members are also deemed to be related parties. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board of Directors and its executives. The Board of Directors and executives' remuneration are disclosed in the table below. As at December 31, 2020, outstanding compensation payable are $21 (2019: $27). The Chair receives a retainer paid monthly for an annual amount of $10. The Chair and Board of Directors are paid on a per diem basis for preparation and meeting time. The minimum and maximum amounts paid to directors were $13 (2019: $16) and $32 (2019: $42), respectively. The average amount paid to directors was $18 (2019: $22).

	2020				2019
	Salary[1]	Other Compensation[2]	Other Non-Cash Benefits[3]	Total	Total
Chair	$ 32	$ -	$ -	$ 32	$ 42
Board of Directors	125	-	-	125	155
Executives:					
President & CEO[4]	356	75	9	440	415
Executive Vice President, Regulation & Risk Assessment (EVP, RRA)[5]	127	20	7	154	284
Chief Financial Officer(CFO)	175	34	8	217	207
Vice President, Business Services & Regulatory Practices (VP, BSRP)	180	40	8	228	199
Assistant Vice President, Governance & Human Resources (AVP, Gov & HR)[6]	134	265	8	407	179
Total remuneration	**$ 1,129**	**$ 434**	**$ 40**	**$ 1,603**	**$ 1,481**

Notes to Financial Statements

Thousands of dollars

1. Salary includes regular base pay.
2. Other compensation includes wellness, vehicle allowance, contributions to the group RRSP, independent life and accidental disability insurance, parking and RCA Plan for the CEO vacation payout and pay in lieu upon termination and termination benefit. The total amount contributed to executive RRSPs in the defined contribution plan was $134 (2019: $128). Contributions made to the RCA Plan was $28 (2019: $27). The compensation amount disclosed on the Corporation's public website includes salary and other compensation.
3. Other non-cash benefits include employer's portion of CPP, EI, WCB and health and dental premiums.
4. The CEO position was occupied by two individuals.
5. The EVP, RRA was vacant as of August 5, 2020.
6. The AVP, Gov & HR position was vacant as of December 15, 2020. A termination benefit of $189 has been included in other compensation.

13. INCOME TAX EXPENSE

The Corporation's statutory income tax rate is 18% (2019: 20.5%). 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:

	2020	2019
Expected income taxes on pre-tax net income at the statutory rate	$ 4,448	$ 5,103
Add (deduct) tax effect of:		
Non-taxable assessments	(2,081)	(3,820)
Other	1	(28)
Total income tax expense	**$ 2,368**	**$ 1,255**

At December 31, 2020, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $1 (2019: $18). The resulting deferred tax liability is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 17%.

14. COMMITMENTS

During the year, the Corporation extended its office space lease agreement for one year. The lease expires on August 31, 2022. The following represents the estimated payments for the office lease over the next five years.

	Lease and Interest Payments	Lease Operating Expenses
Not later than one year	$ 214	$ 255
Later than one year and not later than five years	143	170
Later than five years	-	-
	$ 357	**$ 425**

Notes to Financial Statements

Thousands of dollars

15. CAPITAL MANAGEMENT

The Corporation's capital is comprised of ex ante funding. The Corporation is not subject to externally imposed regulatory capital requirements. The Corporation manages equity through the following: quarterly reporting to the Board of Directors through its committees on financial results; setting budgets and reporting variances to those budgets; establishing the Corporate Investment Policy; monitoring, reporting, and reviewing the adequacy of the Fund, and reviewing the assessment rates for credit unions.

The Corporation has determined that it is prudent to maintain an amount in advance or ex ante funding to absorb losses. The amount of such funding consists of the Fund and AOCI. The Fund size is maintained within an operating range of 1.40% to 1.60% of total deposits and borrowings plus adjustments for any credit union deficiency from the minimum supervisory capital requirement. The Fund size as of December 31, 2020 is 1.78%.

16. COMPARATIVE FIGURES

Certain 2019 figures have been reclassified, where necessary, to conform to 2020 presentation.

Other Financial Information

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Public Interest Disclosure (Whistleblower Protection) Act (Unaudited)

For the year ended March 31, 2021

Section 32 of the *Public Interest Disclosure (Whistleblower Protection) Act* reads:

32 (1) Every chief officer must prepare a report annually on all disclosures that have been made to the designated officer of the department, public entity or office of the Legislature for which the chief officer is responsible.

(2) The report under subsection (1) must include the following information:

a) the number of disclosures received by the designated officer, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;

b) the number of investigations commenced by the designated officer as a result of disclosures;

c) in the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

(3) The report under subsection (1) must be included in the annual report of the department, public entity or office of the Legislature if the annual report is made publicly available on request.

There were no disclosures of wrongdoing filed with my office for your department between April 1, 2020 and March 31, 2021.

Statement of Remissions, Compromises and Write-offs (Unaudited)

For the year ended March 31, 2021

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all remissions, compromises and write-offs of the Ministry of Treasury Board and Finance made or approved during the fiscal year.

Write-offs	
Department of Treasury Board and Finance	
Accounts Receivable	
Corporate Income Tax	$ 6,089,401
Fuel Tax	40,826
Tobacco Tax	10,069
Carbon Levy	2,037
Tourism Tax	4,175
Sub-total	6,146,508
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	10,709
ATB Financial	199,583,000
Loans and accounts receivable	
Total write-offs	$ 205,740,217
Remissions	
Carbon Levy	$ 1,561,535

Statement of Borrowings Made Under Section 56 of the *Financial Administration Act* (Unaudited)

For the year ended March 31, 2021

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	**Proceeds**
Payable in Canadian dollars:		
Promissory Notes	$ 32,758,299,437	$ 32,731,681,875
Debentures	26,406,157,921	27,492,246,409
	$ 59,164,457,358	$ 60,223,928,284

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged (Unaudited)

For the year ended March 31, 2021

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 2020-21 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act* was $ nil.

Statements of Guarantees and Indemnities (Unaudited)

For the year ended March 31, 2021

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act*. The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Treasury Board and Finance and on behalf of the Crown and Provincial Corporations for the year ended March 31, 2020, 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	$ 10,709	$ -

Lapse/Encumbrance (Unaudited)
Department of Treasury Board and Finance
For the year ended March 31, 2021

($ thousands)

	Voted Estimates (1)	Supplementary Supply	Adjustments	Adjusted Voted Estimate	Voted Actuals (3)	(Unexpended) Over Expended
Operating Expense						
1. Ministry Support Services						
1.1 Minister's Office	$ 1,120	$ -		$ 1,120	$ 913	$ (207)
1.2 Associate Minister of Red Tape Reduction's Office	555	-		555	$ 507	(48)
1.3 Deputy Minister's Office	691	-		691	724	33
1.4 Corporate Services	5,642	(331)		5,311	4,725	(586)
	8,008	(331)	-	7,677	6,869	(808)
2. Budget Development and Reporting	6,188	-		6,188	5,429	(759)
3. Fiscal Planning and Economic Analysis	5,970	-		5,970	5,281	(689)
4. Investment, Treasury and Risk Management						-
4.1 Treasury Management	11,008	(1,064)		9,944	9,653	(291)
4.2 Risk Management and Insurance	1,751	-		1,751	1,720	(31)
	12,759	(1,064)	-	11,695	11,373	(322)
5. Office of the Controller	7,682	-		7,682	5,025	(2,657)
6. Tax and Revenue Management						
6.1 Tax and Revenue Administration	24,095	-		24,095	23,023	(1,072)
6.2 Border Community Competiveness Program	-	-	-	-		-
	24,095	-	-	24,095	23,023	(1,072)
7. Financial Sector and Pensions						
7.1 Financial Sector Regulation and Policy	5,792	-		5,792	6,242	450
7.2 Automobile Insurance Rate Board	1,309	-	-	1,309	1,216	(93)
	7,101	-	-	7,101	7,458	357
8. Provincial Bargaining Coordination Office	3,426	-		3,426	2,770	(656)
9. Corporate Planning and Red Tape Reduction	3,483	-		3,483	2,132	(1,351)
10. Public Service Commission						
10.1 Office of the Public Service Commissioner	665	-	-	665	675	10
10.2 Public Service Communications and Engagement	3,133	(36)	-	3,097	3,091	(6)
10.3 Human Resources Service Delivery	26,253	(277)	-	25,976	27,155	1,179
10.4 Labour and Employment Policy and Programs	22,664	(257)	-	22,407	13,474	(8,933)
10.5 Strategic Services and Public Agency Secretariat	13,654	(199)	-	13,455	13,053	(402)
10.6 Strategic Integration Branch	1,117	-	-	1,117	1,250	133
	67,486	(769)	-	66,717	58,698	(8,019)
11. Communications and Public Engagement				-		
11.1 Communications and Public Engagement	31,931	8,000		39,931	36,550	(3,381)
11.2 Market Access	-			-		-
	31,931	8,000	-	39,931	36,550	(3,381)
12. Gaming						
12.1 Gaming Research	1,600	-		1,600	1,501	(99)
12.2 Horse Racing and Breeding Renewal Program	38,000	(3,400)	-	34,600	25,414	(9,186)
12.3 Bingo Associations	-	-	-	-	-	-
	39,600	(3,400)	-	36,200	26,915	(9,285)
Debt Servicing						
13 School Construction Debentures	-	-	-	-		-
Total	217,729	2,436	-	220,165	191,523	(28,642)
(Lapse)/Encumbrance						(28,642)

Lapse/Encumbrance (Unaudited)

Department of Treasury Board and Finance

For the year ended March 31, 2021

($ thousands)

	Voted Estimates (1)	Supplementary Supply	Adjustments (2)	Adjusted Voted Estimate	Actuals (3)	(Unexpended) Over Expended
Capital Investment Vote by Program						
Department Capital Acquisitions						
1 Ministry Support Services						
1.4 Corporate Services	$ 25		$ (2)	$ 23	$ -	$ (23)
11 Communications and Public Engagement						
11.1 Communications and Public Engagement	-	-	-	-	34	$ 34
Total	25	-	(2)	23	34	11
(Lapse)/Encumbrance						11
Contingency and Disaster and Emergency Assistance Vote by Program						
Operating Expense						
15. Disasters, Emergencies and Contingencies	$ 750,000	$ -	$ (107,996)	$ 642,004	$ -	$ (642,004)
Total	750,000	-	(107,996)	642,004	-	(642,004)
(Lapse)/Encumbrance						$ (642,004)

(1) As per "Expense Vote by Program", "Capital Investment Vote by Program", "Financial Transactions Vote by Program" and "Contingency and Disaster and Emergency Assistance" on pages 209-211 of the 2020-21 Government Estimates.

(2) TBF had an encumbrance from prior year which is adjusted for fiscal year 2020-21

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

Long Term Disability Income Continuance Plan - Bargaining Unit

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Long Term Disability Income Continuance Plan – Bargaining Unit (the Plan), which comprise the statement of financial position as at March 31, 2021, and the statements of changes in net assets available for benefits, and changes in benefit obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2021, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Plan in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The financial statements of the Plan are included in the *Annual Report of the Ministry of Treasury Board and Finance* that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Plan, but does not include the financial statements of the Plan and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plan’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan’s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Plan’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up

to the date of my auditor’s report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 2, 2021
Edmonton, Alberta

Statement of Financial Position

($ thousa

	2021	
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 289,801	$ 254,892
Contributions receivable		
Employer	387	368
Employee	386	368
Accounts receivable	985	250
Total Assets	291,559	255,878
Liabilities		
Accounts payable and accrued liabilities	20,362	1,671
Total Liabilities	20,362	1,671
Net assets available for benefits	271,197	254,207
Benefit obligation and surplus		
Benefit obligation (Note 5)	218,492	190,501
Surplus (Note 6)	52,705	63,706
Benefit obligation and surplus	**$ 271,197**	**$ 254,207**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2021

	($ thousands)	
	2021	**2020**
Increase in assets		
Contributions:		
Employers	$ 13,130	$ 13,520
Employees	13,105	13,517
Investment income (Note 7)	41,266	-
	67,501	27,037
Decrease in assets		
Benefit payments	42,336	38,321
Adjudication	5,291	4,361
Severance	605	443
Rehabilitation	595	578
Investment loss (Note 7)	-	10,077
Investment expenses (Note 8)	1,338	1,096
Administrative expenses (Note 9)	346	374
	50,511	55,250
(Decrease) increase in net assets	16,990	(28,213)
Net assets available for benefits at beginning of year	254,207	282,420
Net assets available for benefits at end of year	**$ 271,197**	**$ 254,207**

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

Statement of Changes in Benefit Obligation

	2021	2020
	($ thousands)	
Increase in benefit obligation		
New claims	$ 42,269	$ 40,550
Interest accrued on benefits	5,933	5,978
Other net experience loss	4,206	5,283
Change in discount rate assumption	6,931	4
	59,339	51,815
Decrease in benefit obligation		
Benefit payments	42,336	38,321
Terminations other than expected	(11,269)	(5,154)
Change in CPP offset assumption	281	247
	31,348	33,414
Increase in benefit obligation	27,991	18,401
Benefit obligation at beginning of year	190,501	172,100
Benefit obligation at end of year	$ 218,492	$ 190,501

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

Notes to the Financial Statements

Year ended March 31, 2021
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for bargaining unit employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Long Term Disability Income Continuance Plan Regulation, section 98 of the *Financial Administration Act* and Treasury Board Directive 08/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta employees included in an Alberta Union of Provincial Employee's (AUPE) bargaining unit. Management and employees opted out and excluded from an AUPE bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded equally by employer and employee contributions at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2021 are 1.00% (2020: 1.00%) of insurable salary for employers and 1.00% (2020: 1.00%) for employees. The rates are to be reviewed at least once every three years by the Public Service Commissioner based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self- employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or wilfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by the Public Service Commission of $208 (2020: $204).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

   i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools; and

   ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

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

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, real estate and renewable resources. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and renewable resources pools may differ significantly from the values that would have been used had readily available market prices existed for these investments.

While best estimates have been used in the valuation of the Plan's benefit obligation and in the valuation of the Plan's private investments, hedge funds, real estate and renewable resources investments, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Plan's investments.

NOTE 3 INVESTMENTS

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

($ thousands)

	Fair Value Hierarchy [a]		2021	2020
	Level 2	Level 3	Fair Value	Fair Value
Money market and fixed income				
Deposits and short-term securities	$ 21,956	$ -	$ 21,956	$ 3,933
Bonds, mortgages and private debt	110,057	13,114	123,171	122,937
	132,013	13,114	145,127	126,870
Equities				
Canadian	28,542	-	28,542	24,119
Foreign	68,764	3,415	72,179	57,563
Private	-	1,959	1,959	3,744
	97,306	5,374	102,680	85,426
Inflation sensitive and alternatives				
Real estate	-	22,427	22,427	22,705
Infrastructure	-	13,089	13,089	12,856
Renewable resources	-	5,316	5,316	5,399
	-	40,832	40,832	40,960
Strategic, tactical and currency investments *	228	934	1,162	1,636
Total investments	$ 229,547	$ 60,254	$ 289,801	$ 254,892

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

NOTE 3 INVESTMENTS (CONTINUED)

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $229,547 (2020: $193,752).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totalling $60,254 (2020: $61,140).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2021	**2020**
Balance, beginning of year	$ 61,140	$ 63,125
Investment income *	434	1,437
Purchases of Level 3 pooled fund units	4,610	8,251
Sale of Level 3 pooled fund units	(5,930)	(11,673)
Balance, end of year	**$ 60,254**	**$ 61,140**

* Investment income includes unrealized losses of ($1,356) (2020: ($3,327)).

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

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

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of renewable resources investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provide overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

NOTE 3 INVESTMENTS (CONTINUED)

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on differences between contractual foreign exchange rates and foreign exchange forward rates. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the President of Treasury Board and Minister of Finance. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. 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 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board and Minister of Finance has established the following target policy asset mix:

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2021		Actual Asset Mix 2020	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	35 - 55%	$ 145,127	50.1	$ 126,870	49.8
Equities	20 - 58%	102,680	35.4	85,426	33.5
Inflation sensitive and alternatives	7 - 20%	40,832	14.1	40,960	16.1
Strategic, tactical and currency	(a)	1,162	0.4	1,636	0.6
		$ 289,801	100.0	$ 254,892	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to an economic exposure limit of 5% of the Plan's assets.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

a) Credit risk

i. Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Plan's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	86.6%	89.3%
Speculative Grade (BB+ or lower)	2.7%	0.6%
Unrated	10.7%	10.1%
	100.0%	100.0%

ii. Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Plan. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii. Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Plan's share of securities loaned under this program is $5,148 (2020: $3,819) and collateral held totals $5,483 (2020: $4,072). 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.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

b) Foreign currency risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 24% (2020: 22%) of the Plan's investments, or $69,011 (2020: $55,548), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 13% (2020: 12%) and the Euro, 3% (2020: 2%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.4% (2020: 2.2%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2021:

	($ thousands)			
	2021		2020	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 39,011	$ (3,901)	$ 30,119	$ (3,012)
Euro	7,423	(742)	5,460	(546)
Japanese yen	4,613	(461)	4,808	(481)
British pound sterling	3,177	(318)	1,664	(166)
Other foreign currency	14,787	(1,479)	13,497	(1,350)
Total foreign currency investments	$ 69,011	$ (6,901)	$ 55,548	$ (5,555)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's total investments.

c) Interest rate risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.8% (2020: 3.3%) of total investments.

d) Price risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 4.2% (2020: 4.6%) of total investments. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

e) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. 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 payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2021	2020
Contracts in net favourable position (current credit exposure)	77	$ 3,274	$ 24,034
Contracts in net unfavourable position	9	(1,373)	(35,843)
Net fair value of derivative contracts	86	$ 1,901	$ (11,809)

i. Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $3,274 (2020: $24,034) were to default at once.

ii. Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii. Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2021	2020
Equity-based derivatives	$ 747	$ (7,178)
Foreign currency derivatives	773	(1,668)
Interest rate derivatives	350	(2,975)
Credit risk derivatives	31	12
Net fair value of derivative contracts	$ 1,901	$ (11,809)

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Equity-based derivatives include equity swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

v. At March 31, 2021, deposits in futures contracts margin accounts totaled $1,654 (2020: $4,491). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $3,199 (2020: $10,000) and $nil (2020: $nil).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2020 by the Plan's actuary, Eckler Ltd. and was then extrapolated to March 31, 2021.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Public Service Commissioner.

The major assumptions used were:

	%	
	2021 Extrapolation	**2020 Valuation**
Interest discount rate (net of investment and administrative expenses)	2.9	3.5
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	30	30

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 2.9% (2020: 3.5%). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

The Incurred But Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 30% (2020: 30%) of experience rated premiums was appropriate for estimating the reserve amount.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2021. 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 2021.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2021 based on the extrapolation performed from the December 31, 2019 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5% decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $6 million (2020: $5 million).

NOTE 6 SURPLUS

	($ thousands) 2021	2020
Surplus at beginning of year	$ 63,706	$ 110,320
(Decrease) increase in net assets available for benefits	16,990	(28,213)
Net (increase) in benefit obligation	(27,991)	(18,401)
Surplus at end of year	$ 52,705	$ 63,706

NOTE 7 INVESTMENT INCOME

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

	($ thousands) Income	Change in Fair Value	2021 Total	2020 Total
Money market and fixed income	$ 9,988	$ (3,238)	$ 6,750	$ 4,276
Equities				
Canadian	4,526	6,869	11,395	(5,965)
Foreign	10,727	13,788	24,515	(9,239)
Private	(794)	17	(777)	(1,005)
	14,459	20,674	35,133	(16,209)
Inflation sensitive and alternatives				
Real estate	(134)	(1,158)	(1,292)	(133)
Infrastructure	445	388	833	1,143
Renewable resources	(130)	(88)	(218)	865
	181	(858)	(677)	1,875
Strategic, tactical and currency investments	513	(453)	60	(19)
	$ 25,141	$ 16,125	$ 41,266	$ (10,077)

NOTE 7 INVESTMENT INCOME (CONTINUED)

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $277 and $15,848 respectively (2020: $1,418 and ($19,710) respectively). Realized and unrealized gains and losses on currency hedges total ($106) and ($36) respectively (2020: $20 and $9 respectively).

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

NOTE 8 INVESTMENT EXPENSES

	($ thousands) 2021	2020
Amount charged by AIMCo for: [a]		
Investment costs [b]	$ 802	$ 829
Performance based fees [b]	524	255
	1,326	1,084
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 1,338	$ 1,096
Increase (decrease) in expenses	22.1%	(4.9%)
Increase (decrease) in average investments under management	1.2%	(4.4%)
Increase (decrease) in value of investments attributed to AIMCo	2.1%	(4.6%)
Investment expense as a percent of dollar invested	0.5%	0.4%

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

(b) Internal performance fees previously included in investment costs have now been reclassed to performance based fees.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands) 2021	2020
General administration costs		
Salaries and related expenses	$ 208	$ 204
Fund Administration - Union liaison and others	-	19
Actuarial fees	96	73
Supplies and services	42	78
	$ 346	$ 374

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2021	2020	2019	2018	2017
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	14.1	0.3	6.1	4.7	8.1
Value added (lost) by investment manager	2.1	(4.6)	0.4	1.0	1.8
Time weighted rate of return, at fair value [(a)]	**16.2**	**(4.3)**	**6.5**	**5.7**	**9.9**
Other sources [(b)]	(9.5)	(5.7)	(5.2)	(4.6)	(1.8)
Per cent change in net assets [(c)]	**6.7**	**(10.0)**	**1.3**	**1.1**	**8.1**
Per cent change in benefit obligation [(c)]	**14.7**	**10.7**	**3.1**	**(4.3)**	**1.3**
Per cent of benefit obligation supported by net assets	**124**	**133**	**164**	**167**	**158**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 6.6% (PBR: 6.7%), ten years is 7.9% (PBR: 7.5%) and since inception is 6.4% (PBR: 6.1%).

(b) Other sources include employee and employer contributions and administration expenses.

(c) The percentage change in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $52,705 (2020: surplus of $63,706) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is not named in any legal matters where damages are being sought, this year or in the prior year.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2021 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Public Service Commissioner and the Senior Financial Officer.

Long Term Disability Income Continuance Plan - Management, Opted Out And Excluded

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Opinion

I have audited the financial statements of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded (the Plan), which comprise the statement of financial position as at March 31, 2021, and the statements of changes in net assets available for benefits, and changes in benefit obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2021, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Plan in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The financial statements of the Plan are included in the *Annual Report of the Ministry of Treasury Board and Finance* that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Plan, but does not include the financial statements of the Plan and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 2, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

	($ thousands)	
	2021	**2020**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 57,632	$ 55,146
Employer contributions receivable	160	69
Accounts receivable	32	13
Total Assets	57,824	55,228
Liabilities		
Accounts payable and accrued liabilities	4,586	487
Total Liabilities	4,586	487
Net assets available for benefits	53,238	54,741
Benefit obligation and surplus		
Benefit obligation (Note 5)	45,380	43,106
Surplus (Note 6)	7,858	11,635
Benefit obligation and surplus	**$ 53,238**	**$ 54,741**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2021

	($ thousands)	
	2021	**2020**
Increase in assets		
Employer contributions	$ 2,216	$ 2,440
Investment income (Note 7)	7,886	-
	10,102	2,440
Decrease in assets		
Benefit payments	10,250	9,966
Adjudication	741	676
Rehabilitation	54	76
Severance	55	90
Investment loss (Note 7)	-	1,579
Investment expenses (Note 8)	369	272
Administrative expenses (Note 9)	136	145
	11,605	12,804
(Decrease) in net assets	(1,503)	(10,364)
Net assets available for benefits at beginning of year	54,741	65,105
Net assets available for benefits at end of year	**$ 53,238**	**$ 54,741**

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

Statement of Changes in Benefit Obligation

Year ended March 31, 2021

	($ thousands)	
	2021	**2020**
Increase in benefit obligation		
New claims	$ 8,361	$ 8,970
Interest accrued on benefits	1,483	1,528
Change in discount rate assumption	1,171	715
	11,015	11,213
Decrease in benefit obligation		
Benefit payments	10,250	9,966
Terminations other than expected	(798)	(1,494)
Change in CPP offset assumption	38	37
Other net experience (loss)/gains	(749)	61
	8,741	8,570
Increase in benefit obligation	2,274	2,643
Benefit obligation at beginning of year	43,106	40,463
Benefit obligation at end of year	$ 45,380	$ 43,106

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

Notes to the Financial Statements

Year ended March 31, 2021
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for management, opted out and excluded employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Provincial Court Judges and Masters in Chambers Compensation Regulation 176/98 and the Justice of Peace Regulation 6/99, the Long Term Disability Income Continuance Plan Regulation, the Long Term Disability Benefits Regulation (Legislative Assembly Act), section 98 of *the Financial Administration Act* and Treasury Board Directive 09/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta management, opted out and excluded employees, Members of the Legislative Assembly, Auditor General, Child and Youth Advocate, Chief Electoral Officer, Ethics Commissioner, Freedom of Information and Privacy Commissioner, Ombudsman, Full-Time Justice of the Peace and Provincial Judges. Employees included in an Alberta Union of Provincial Employee's bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded by employer (Government of Alberta including Legislative Assembly and other Legislative Offices) contributions at a rate which is expected to provide for all benefits payable under the Plan. The rate in effect at March 31, 2021 is 0.30% (2020: 0.30%) of insurable salary of eligible employees with the exception of Provincial Judges with the rate of 0.55% (2020: 0.55%). The rates are to be reviewed at least once every three years by the Public Service Commissioner based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. For Judges and Full-Time Justices of the Peace benefits terminate at age 70. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self-employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or willfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by the Public Service Commission of $87 (2020: $102).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools; and

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

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

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred but Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts payable and accrued liabilities are estimated to approximate their book values.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, real estate and renewable resources. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and renewable resources pools may differ significantly from the values that would have been used had readily available market prices existed for these investments.

While best estimates have been used in the valuation of the Plan's benefit obligation and in the valuation of the Plan's private investments, hedge funds, real estate and renewable resources investments, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Plan's investments.

NOTE 3 INVESTMENTS

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

($ thousands)

	Fair Value Hierarchy [(a)]		**2021**	**2020**
	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income				
Deposits and short-term securities	$ 5,048	$ -	$ 5,048	$ 1,063
Bonds, mortgages and private debt	19,707	2,857	22,564	25,308
	24,755	2,857	27,612	26,371
Equities				
Canadian	5,570	-	5,570	5,144
Foreign	11,731	895	12,626	11,051
Private	-	607	607	981
	17,301	1,502	18,803	17,176
Inflation sensitive and alternatives				
Real estate	-	6,390	6,390	6,469
Infrastructure	-	3,147	3,147	3,197
Renewable resources	-	1,347	1,347	1,365
	-	10,884	10,884	11,031
Strategic, tactical and currency investments *	52	281	333	568
Total investments	$ 42,108	$ 15,524	$ 57,632	$ 55,146

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

NOTE 3 INVESTMENTS **(CONTINUED)**

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $42,108 (2020: $39,069).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $15,524 (2020: $16,077).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2021	**2020**
Balance, beginning of year	$ 16,077	$ 17,209
Investment income *	50	460
Purchases of Level 3 pooled fund units	926	1,551
Sale of Level 3 pooled fund units	(1,529)	(3,143)
Balance, end of year	**$ 15,524**	**$ 16,077**

* Investment income includes unrealized losses of ($526) (2020: ($809))

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

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

- ***Money market and fixed income***: Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.
- ***Equities***: Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives***: The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of renewable resources investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provide overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

NOTE 3 INVESTMENTS (CONTINUED)

- ***Foreign currency***: Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts***: The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on differences between contractual foreign exchange rates and foreign exchange forward rates. Futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the President of Treasury Board and Minister of Finance. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. 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 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board and Minister of Finance has established the following target policy asset mix:

	Target Policy	Actual Asset Mix			
Asset Class	**Asset Mix**	**2021**		**2020**	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	35 - 55%	$ 27,612	47.9	$ 26,371	47.8
Equities	20 - 58%	18,803	32.6	17,176	31.2
Inflation sensitive and alternatives	7 - 20%	10,884	18.9	11,031	20.0
Strategic, tactical and currency	(a)	333	0.6	568	1.0
		$ 57,632	100.0	$ 55,146	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to an economic exposure limit of 5% of the Plan's assets.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

a) Credit risk

i. Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Plan's investment in debt securities by credit rating at March 31, 2021:

Credit rating	**2021**	**2020**
Investment Grade (AAA to BBB-)	84.8%	88.4%
Speculative Grade (BB+ or lower)	2.7%	0.6%
Unrated	12.5%	11.0%
	100.0%	100.0%

ii. Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Plan. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii. Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Plan's share of securities loaned under this program is $966 (2020: $757) and collateral held totals $1,028 (2020: $807). 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.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

b) Foreign currency risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 23% (2020: 22%) of the Plan's investments, or $13,200 (2020: $12,069), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 13% (2020: 12%) and the Euro, 2% (2020: 2%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.3% (2020: 2.2%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2021:

	($ thousands)			
	2021		2020	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 7,688	$ (769)	$ 6,812	$ (681)
Euro	1,299	(130)	1,045	(105)
Japanese yen	792	(79)	928	(93)
Other foreign currency	3,421	(342)	3,284	(328)
Total foreign currency investments	$ 13,200	$ (1,320)	$ 12,069	$ (1,207)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's total investments.

c) Interest rate risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter term bonds. If interest rates increased by 1% and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.5% (2020: 3.0%) of total investments.

d) Price risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 4.0% (2020: 4.5%) of total investments. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

e) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. 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 payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2021	2020
Contracts in net favourable position (current credit exposure)	77	$ 610	$ 4,686
Contracts in net unfavourable position	9	(265)	(7,036)
Net fair value of derivative contracts	86	$ 345	$ (2,350)

i. Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favorable position totaling $610 (2020: $4,686) were to default at once.

ii. Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii. Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2021	2020
Equity-based derivatives	$ 144	$ (1,424)
Foreign currency derivatives	133	(326)
Interest rate derivatives	63	(603)
Credit risk derivatives	5	3
Net fair value of derivative contracts	$ 345	$ (2,350)

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Equity-based derivatives include equity swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

v. At March 31, 2021, deposits in futures contracts margin accounts totaled $299 (2020: $872). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $570 (2020: $2,007) and $nil (2020: $nil).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2020 by the Plan's actuary, Eckler Ltd. and was then extrapolated to March 31, 2021.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Public Service Commissioner.

The major assumptions used were:

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 3.3% (2020: 3.9%). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

The Incurred but Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 35% (2020: 35%) of experience rated premiums was appropriate for estimating the reserve amount.

	%	
	2021 Extrapolation	**2020 Valuation**
Interest discount rate (net of investment and administrative expenses)	3.3	3.9
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	35	35

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2021. 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 2022.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2021, based on the extrapolation performed from the December 31, 2020 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5% decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $1 million (2020: $0.9 million).

NOTE 6 SURPLUS

($ thousands)

	2021	2020
Surplus at beginning of year	$ 11,635	$ 24,642
(Decrease) in net assets available for benefits	(1,503)	(10,364)
Net (increase) in benefit obligation	(2,274)	(2,643)
Surplus at end of year	$ 7,858	$ 11,635

NOTE 7 INVESTMENT INCOME

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

($ thousands)

	Income	Change in Fair Value	2021 Total	2020 Total
Money market and fixed income	$ 1,975	$ (480)	$ 1,495	$ 962
Equities				
Canadian	908	1,454	2,362	(1,265)
Foreign	1,968	2,479	4,447	(1,673)
Private	(18)	(19)	(37)	(189)
	2,858	3,914	6,772	(3,127)
Inflation sensitive and alternatives				
Real estate	(38)	(330)	(368)	(38)
Infrastructure	97	22	119	335
Renewable resources	(36)	(19)	(55)	227
	23	(327)	(304)	524
Strategic, tactical and currency investments	155	(232)	(77)	62
	$ 5,011	$ 2,875	$ 7,886	$ (1,579)

NOTE 7 INVESTMENT INCOME (CONTINUED)

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $259 and $2,616 respectively (2020: $439 and ($4,042) respectively). Realized and unrealized gains and losses on currency hedges total ($32) and ($106) respectively (2020: ($7) and $80 respectively).

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

NOTE 8 INVESTMENT EXPENSES

	($ thousands)	
	2021	**2020**
Amount charged by AIMCo for: [a]		
Investment costs [b]	$ 171	$ 185
Performance based fees [b]	186	74
	357	259
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	13
Total investment expenses	$ 369	$ 272
Increase (decrease) in expenses	35.7%	(11.1%)
Decrease in average investments under management	(6.5%)	(10.7%)
Increase (decrease) increase in value of investments attributed to AIMCo	0.5%	(3.9%)
Investment expense as a percent of dollar invested	0.7%	0.5%

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

(b) Internal performance fees previously included in investment costs have now been reclassed to performance based fees.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2021	**2020**
General administration costs		
Salaries and related expenses	$ 87	$ 102
Actuarial fees	35	29
Supplies and services	14	14
	$ 136	$ 145

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2021	2020	2019	2018	2017
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	14.0	0.4	6.2	4.7	8.0
Value added (lost) by investment manager	0.5	(3.9)	0.3	1.0	1.6
Time weighted rate of return, at fair value [(a)]	**14.5**	**(3.5)**	**6.5**	**5.7**	**9.6**
Other sources [(b)]	(17.2)	(12.4)	(12.4)	(10.1)	(7.5)
Per cent change in net assets [(c)]	**(2.7)**	**(15.9)**	**(5.9)**	**(4.4)**	**2.1**
Per cent change in benefit obligation [(c)]	**5.3**	**6.5**	**2.7**	**(3.8)**	**(1.7)**
Per cent of benefit obligation supported by net assets	**117**	**127**	**161**	**176**	**177**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 6.4% (PBR: 6.7%), ten years is 7.5% (PBR: 7.3%) and since inception is 6.1% (PBR: 6.0%).

(b) Other sources include employer contributions and administration expenses.

(c) The percentage change in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $7,858 (2020: surplus of $11,635) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Plan has been named in one (2020: one) claim of which the outcome is not determinable, and as such, no amounts are accrued in these financial statements in respect of this claim. The claim has a specified amount of $1,500 (2020: $1,500). The claim is covered by Alberta Risk Management Fund. The resolution of the claim may result in a liability, if any, that may be significantly lower than the claimed amount.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2021 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Public Service Commissioner and the Senior Financial Officer.

Management Employees Pension Plan

Financial Statements

December 31, 2020

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Independent Auditor’s Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2020, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Management Employees Pension Plan, in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor’s report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor’s report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Management Employees Pension Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Management Employees Pension Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Management Employees Pension Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Management Employees Pension Plan's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Management Employees Pension Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

April 23, 2021
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2020

	($ thousands) 2020	2019
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,618,176	$ 5,628,777
Contributions receivable		
Employers	257	3,705
Employees	113	2,678
Accounts receivable	1,455	1,837
Total Assets	5,620,001	5,636,997
Liabilities		
Accounts payable	1,885	1,429
Total Liabilities	1,885	1,429
Net assets available for benefits	$ 5,618,116	$ 5,635,568
Pension obligation and surplus		
Pension obligation (Note 5)	$ 4,808,266	$4,627,433
Surplus (Note 6)	809,850	1,008,135
Pension obligation and surplus	$ 5,618,116	$ 5,635,568

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2020

	($ thousands) 2020	2019
Increase in Assets		
Contributions (Note 7)	$ 154,914	$ 190,539
Investment income (Note 8)	143,768	673,623
Transfers from other plans, net	550	3,131
	299,232	867,293
Decrease in Assets		
Benefit payments (Note 10)	281,413	249,486
Investment expenses (Note 11)	32,941	41,060
Administrative expenses (Note 12)	2,330	2,511
	316,684	293,057
(Decrease) increase in net assets	(17,452)	574,236
Net assets available for benefits at beginning of year	5,635,568	5,061,332
Net assets available for benefits at end of year	$ 5,618,116	$ 5,635,568

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2020

	($ thousands)	
	2020	**2019**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 273,217	$ 264,316
Benefits earned	129,594	135,584
Net increase due to actuarial assumption changes (Note 5a)	58,885	87,275
	461,696	487,175
Decrease in pension obligation		
Benefits, transfers and interest	280,863	246,355
Net experience gains (Note 5b)	-	4,019
	280,863	250,374
Net increase in pension obligation	180,833	236,801
Pension obligation at beginning of year	4,627,433	4,390,632
Pension obligation at end of year (Note 5)	$ 4,808,266	$ 4,627,433

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2020

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management for the purpose of these financial statements. The Plan is governed by the Management Employees Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Current service costs and any actuarial deficiency (see Note 14) are funded by employees and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2020 were 12.80% (2019: 12.80%) of the capped salary for employees and 13.20% (2019: 17.20%) for employers. The capped salary is set to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*.

The contribution rates are reviewed and approved at least once every three years by the President of Treasury Board and Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average of the highest five consecutive years of pensionable salary. Pensionable earnings after December 31, 1991 are capped to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*. The maximum combined pensionable service allowable under the Plan is 35 years.

Vested members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of combined pensionable service.

Vested members are entitled to an unreduced pension on service after 1991 if they have either attained age 60, or age 55 and the sum of their age and years of combined pensionable 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 PENSIONS

Unreduced pensions may be payable to members who become totally disabled and retire early with at least five years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of combined pensionable 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 pensions.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive either a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where combined pensionable 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 at least five years of combined pensionable service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any service purchased by the member on an elective basis that was wholly funded by the member is not included in the commuted value and is instead refunded as contributions with interest. If the remaining member contributions fund more than 100% of the benefit earned after 1991, that excess is refunded to the member.

Members who terminate with fewer than five years of combined pensionable service receive a refund of their contributions plus interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) PURCHASED SERVICE AND TRANSFERS

All elective service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. The cost-of-living increase is prorated for pensions that became payable between January 1st and December 31st of the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools; and

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income, (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the measurement date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumptions or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Plan's investments.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

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

($ thousands)

	Fair Value Hierarchy [a]		2020	2019
Asset class	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income				
Deposits and short-term securities	$ 31,200	$ -	$ 31,200	$ 33,115
Bonds, mortgages and private debt	286,937	336,242	623,179	692,687
	318,137	336,242	654,379	725,802
Equities				
Canadian	859,595	-	859,595	850,386
Foreign	2,040,379	79,492	2,119,871	2,139,414
Private	4	200,026	200,030	199,563
	2,899,978	279,518	3,179,496	3,189,363
Inflation sensitive				
Real estate	-	718,720	718,720	734,665
Infrastructure	-	707,491	707,491	641,851
Renewable resources	-	34,278	34,278	35,092
Real return bonds	299,449	-	299,449	265,157
	299,449	1,460,489	1,759,938	1,676,765
Strategic, tactical and currency investments *	2,960	21,403	24,363	36,847
Total investments	$ 3,520,524	$ 2,097,652	$ 5,618,176	$ 5,628,777

* This asset class is not listed separately in the IP as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $3,520,524 (2019: $3,604,747).

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $2,097,652 (2019: $2,024,030).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2020	**2019**
Balance, beginning of year	$ 2,024,030	$ 1,827,307
Investment (loss) income *	(68,041)	139,611
Purchases of Level 3 pooled fund units	344,783	395,873
Sale of Level 3 pooled fund units	(203,120)	(338,761)
Balance, end of year	$ 2,097,652	$ 2,024,030

* Investment (loss) income includes unrealized losses of $177,103 (2019: $2,463).

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

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

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

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real

NOTE 3 INVESTMENTS CONTINUED

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. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

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

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

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2020 ($ thousands)	2020 %	2019 ($ thousands)	2019 %
Money market and fixed income	10 - 25%	$ 654,379	11.7	$ 725,802	12.9
Equities	40 - 62%	3,179,496	56.6	3,189,363	56.7
Inflation sensitive	20 - 45%	1,759,938	31.3	1,676,765	29.8
Strategic, tactical and currency investments	(a)	24,363	0.4	36,847	0.6
		$ 5,618,176	100.0	$ 5,628,777	100.0

(a) In accordance with the IP, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Plan's investment in debt securities by credit rating at December 31, 2020:

Credit rating	2020	2019
Investment Grade (AAA to BBB-)	64.0%	72.5%
Speculative Grade (BB+ or lower)	2.7%	0.6%
Unrated	33.3%	26.9%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Plan. Provisions are in place to allow for termination of the contract should there be a material

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2020, the Plan's share of securities loaned under this program is $249,375 (2019: $229,391) and collateral held totals $267,871 (2019: $246,072). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 42% (2019: 42%) of the Plan's investments, or $2,381,595 (2019: $2,381,772), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2019: 19%) and the Euro, 5% (2019: 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 4.2% of total investments (2019: 4.2%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2020:

($ thousands)

	2020		2019	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$1,147,528	$ (114,753)	$1,085,107	$(108,511)
Euro	284,497	(28,450)	276,053	(27,605)
British pound	175,381	(17,538)	175,065	(17,507)
Japanese yen	131,436	(13,144)	147,540	(14,754)
Hong Kong dollar	111,450	(11,145)	102,491	(10,249)
Chinese yuan	95,013	(9,501)	86,782	(8,678)
South Korean won	70,934	(7,093)	49,412	(4,941)
New Taiwan dollar	58,697	(5,870)	50,582	(5,058)
Other foreign currency	306,659	(30,666)	408,740	(40,874)
Total foreign currency investments	$2,381,595	$ (238,160)	$2,381,772	$(238,177)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's net assets.

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 1.2% of total investments (2019: 1.3%).

d) Price Risk

Price risk relates to the possibility that pools units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 5.2% of total investments (2019: 6.9%).

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland,infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	**2020**	**2019**
Contracts in net favourable position (current credit exposure)	146	$ 116,193	$ 260,709
Contracts in net unfavourable position	11	(39,261)	(225,507)
Net fair value of derivative contracts	157	$ 76,932	$ 35,202

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $116,193 (2019: $260,709) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2020**	**2019**
Equity-based derivatives	$ 47,724	$ 20,841
Foreign currency derivatives	28,802	15,594
Interest rate derivatives	(1,359)	(2,581)
Credit risk derivatives	1,765	1,348
Net fair value of derivative contracts	$ 76,932	$ 35,202

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

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

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

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

(v) At December 31, 2020, deposits in futures contracts margin accounts totaled $18,898 (2019: $7,877). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $ 45,910 (2019: $26,495) and $nil (2019: $nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2018 by Aon and was then extrapolated to December 31, 2020.

The actuarial assumptions used in determining the value of the pension obligation of $4,808,266 (2019: $4,627,433) reflect management's best estimate, as at the measurement 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 determined by taking the plan specific asset allocation and applying the expected long term asset returns determined by an independently developed investment model; less expected plan 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:

	2020	2019
	%	
Discount rate	5.90	6.00
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2021. 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 2022.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2019: $4,019) reflect the results of the valuation as at December 31, 2018 extrapolated to December 31, 2020.

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, 2020:

	($ 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	357,800	1.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	44,400	0.8
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	667,200	5.3

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings is 22.6% at December 31, 2020.

NOTE 6 SURPLUS

	($ thousands) 2020	2019
Surplus at beginning of year	$ 1,008,135	$ 670,700
(Decrease) increase in net assets available for benefits	(17,452)	574,236
Net increase in pension obligation	(180,833)	(236,801)
Surplus at end of year	$ 809,850	$ 1,008,135

NOTE 7 CONTRIBUTIONS

	($ thousands) 2020	2019
Current service		
Employers	$ 77,556	$ 107,868
Employees	74,908	80,443
Past service		
Employers	611	747
Employees	1,839	1,481
	$ 154,914	$ 190,539

NOTE 8 INVESTMENT INCOME

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

	($ thousands) Income	Change in Fair Value	2020 Total	2019 Total
Money market and fixed income	$ 43,401	$ 13,492	$ 56,893	$ 59,678
Equities				
Canadian	(3,865)	18,433	14,568	141,864
Foreign	113,193	20,086	133,279	339,859
Private	18,503	(27,598)	(9,095)	(454)
	127,831	10,921	138,752	481,269
Inflation sensitive				
Real estate	18,107	(114,339)	(96,232)	32,218
Infrastructure	25,444	(12,397)	13,047	67,801
Renewable resources	441	(1,663)	(1,222)	1,338
Real return bonds	8,002	28,590	36,592	23,257
	51,994	(99,809)	(47,815)	124,614
Strategic, tactical and currency investments	8,878	(12,940)	(4,062)	8,062
	$ 232,104	$ (88,336)	$ 143,768	$ 673,623

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $6,215 and $(91,051) respectively (2019: $14,044 and $256,851 respectively). Realized and unrealized gains and losses on currency hedges total $(2,519) and $(981) respectively (2019: $(238) and $944 respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis and income and expense on derivative contracts.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2020	2019	2018	2017	2016
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.5	13.3	0.6	9.2	5.8
Value (lost) added by AIMCo	(7.4)	(0.8)	0.5	0.9	0.7
Time weighted rate of return, at fair value [(a)]	**2.1**	**12.5**	**1.1**	**10.1**	**6.5**
Other sources [(b)]	(2.4)	(1.1)	(0.7)	(0.8)	0.2
Per cent change in net assets [(c)]	**(0.3)**	**11.4**	**0.4**	**9.3**	**6.7**
Per cent change in pension obligation [(c)]	**3.9**	**5.4**	**5.2**	**(0.9)**	**4.6**
Per cent of pension obligation supported by net assets	**117**	**122**	**115**	**121**	**110**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 6.4% (PBR: 7.5%), ten years is 8.3% (PBR: 8.4%) and twenty years is 6.4% (PBR: 6.5%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 5.2% (2019: 5.2%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2020	**2019**
Retirement benefits	$ 232,357	$ 220,466
Disability pensions	262	259
Termination benefits	43,090	23,669
Death benefits	5,704	5,092
	$ 281,413	$ 249,486

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2020	2019
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 23,834	$ 24,784
Performance based fees [(a)]	8,201	14,926
GST [(b)]	854	1,298
	32,889	41,008
Amounts charged by Treasury Board and Finance for :		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 32,941	$ 41,060
(Decrease) increase in expenses [(a)]	(19.8%)	23.9%
Increase in average investments under management	5.3%	5.9%
Decrease in value of investments attributed to AIMCo	(7.4%)	(0.8%)
Investment expenses as a percent of dollar invested	0.6%	0.8%
Investment expenses per member	$ 2,665	$ 3,324

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

The per cent (decrease) increase in investment costs and performance based fees is (19.3%) (2019: 24.0%).

(b) AIMCo ceased charging GST to the Plan during the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2020	2019
General administration costs	$ 2,117	$ 2,222
Board costs	38	42
Actuarial fees	26	69
Other professional fees	149	178
	2,330	2,511
Member service expenses per member	$ 189	$ 203

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $35,271 (2019: $43,571) or $2,854 (2019: $3,527) per member and 0.63% (2019: 0.77%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $5,583,883 at December 31, 2020 (2019: $5,376,892).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2018 actuarial funding valuation is funded by special payments totaling 4.96% of pensionable earnings shared between employees and employers until December 31, 2019 and 0.00% thereafter.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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Provincial Judges And Masters In Chambers Registered And (Unregistered) Pension Plan

Financial Statements

March 31, 2021

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Plan (the Plans), which comprise the statements of financial position as at March 31, 2021, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plans as at March 31, 2021, and the changes in the Plans' net assets available for benefits and changes in the Plans' pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Plans in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plans' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plans' financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Plans' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plans' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Plans to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

June 16, 2021
Edmonton, Alberta

Statements of Financial Position

As at March 31, 2021

	Registered Plan Note 1a ($ thousands)		Unregistered Plan Note 1a ($ thousands)	
	2021	**2020**	**2021**	**2020**
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 355	$ 4,815
Investments (Note 4)	166,325	145,953		-
GST receivable	5	15		-
Other receivable	118	-	-	41
Income tax refundable	-	-	18,652	11,396
Due from Reserve Fund (Note 6)	-	-	234,079	201,520
Total assets	166,448	145,968	253,086	217,772
Liabilities				
Refundable tax payable to CRA	-	-	-	2,820
Accounts payable	346	109	1,089	192
Total Liabilities	346	109	1,089	3,012
Net assets available for benefits	$ 166,102	$ 145,859	$ 251,997	$ 214,760
Pension obligation and (deficit)				
Pension Obligation (Note 7)	168,955	152,397	245,902	248,851
(Deficit) Surplus (Note 8)	(2,853)	(6,538)	6,095	(34,091)
Pension obligation and (deficit)	$ 166,102	$ 145,859	$ 251,997	$ 214,760

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended March 31, 2021

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2021	**2020**	**2021**	**2020**
Increase in assets				
Contributions (Note 9)	$ 4,880	$ 5,003	$ 2,451	$ 2,558
Investment income (Note 10)	25,565	-	18	302
Transfers from the Reserve Fund	-	-	11,980	6,759
Increase (decrease) in due from Reserve Fund	-	-	32,559	(11,241)
	30,445	5,003	47,008	(1,622)
Decrease in assets				
Benefit payments (Note 12)	9,136	8,856	9,568	8,834
Investment loss (Note 10)	-	9,036	-	-
Investment expenses (Note 13)	857	858	22	25
Interest Expense	-	-	-	528
Administrative expenses (Note 14)	209	206	181	168
	10,202	18,956	9,771	9,555
Increase (decrease) in net assets	20,243	(13,953)	37,237	(11,177)
Net assets available for benefits at beginning of year	145,859	159,812	214,760	225,937
Net assets available for benefits at end of year	$ 166,102	$ 145,859	$ 251,997	$ 214,760

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31, 2021

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2021	**2020**	**2021**	**2020**
Increase in pension obligation				
Interest accrued on benefits	$ 7,510	$ 7,616	$ 10,981	$ 10,861
Benefits earned	4,724	4,455	11,025	10,321
Increase due to actuarial assumption changes	12,645	3,270	-	6,332
Net experience losses	815	-	-	-
	25,694	15,341	22,006	27,514
Decrease in pension obligation				
Benefits, transfers and interest	9,136	8,856	9,568	8,834
Decrease due to actuarial assumption changes	-	-	240	-
Net experience gains	-	526	15,147	25
	9,136	9,382	24,955	8,859
Net increase (decrease) in pension obligation	16,558	5,959	(2,949)	18,655
Pension obligation at beginning of year	152,397	146,438	248,851	230,196
Pension obligation at end of year (Note 7)	$ 168,955	$ 152,397	$ 245,902	$ 248,851

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2021

(all dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers Registered Pension Plan (Registered Plan) and the Provincial Judges and Masters in Chambers Unregistered Pension Plan (Unregistered Plan) is a summary only. The Registered Plan and the Unregistered Plan, collectively, are contributory defined benefit plans for provincial court judges appointed under the *Provincial Court Act* and masters in chambers appointed under the *Court of Queen's Bench Act.* For a complete description of the plans, reference should be made to the *Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans Alberta Regulation 196/2001,* as amended, which is established pursuant to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, and the *Court of Queens Bench Act*, Revised Statutes of Alberta 2000, Chapter F-12 and the *Interpretation Act*. The plans are administered and accounted for by the Province of Alberta (Province) separately; however, the regulation allows for the financial reporting of both plans to be combined within the same report.

a) GENERAL

The plans were established with effect from April 1, 1998. The Registered Plan provides, to members, benefits up to the maximum allowed for registered pension plans under federal tax rules. It is a registered pension plan as defined in the *Income Tax Act* and the registration number is 0927764. The Unregistered Plan which provides to members, benefits in excess of those limits, is a Retirement Compensation Arrangement (RCA) under the *Income Tax Act*. The Registered Plan and The Unregistered Plan are financed by contributions from members and the Province as well as investment earnings. Due to the tax treatment of the RCA, contributions from the RCA are not large enough to provide for all of the expected future benefit payments from the Unregistered Plan. As a result, the Province has established the Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) (see Note 6) to collect contributions from the Province. These contributions are provided by the Ministry of Justice and Solicitor General. The President of Treasury Board and Minister of Finance is the legal trustee of both plans and Alberta Treasury Board and Finance is management of both plans.

b) FUNDING POLICY

The Registered Plan current service costs are funded by the Province and members at rates which are expected to provide for all benefits payable under the Registered Plan. The rates in effect at March 31, 2021 are 7.00% (2020: 7.00%) of capped salary for members and 19.56% (2020: 19.56%) of capped salary *for* the Province. The rates are reviewed at least once every three years by the Province based on recommendations of the Plan's actuary.

The Unregistered Plan contribution rates in effect at March 31, 2021 are unchanged at 7.0% of pensionable salary in excess of capped salary for members and 7.0% of the excess salary for the Province. The contribution rate for the Province must equal or exceed

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

the rate payable by members and is set by the President of Treasury Board, Minister of Finance, taking into account recommendations of the Plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 43.25% of salary in excess of capped salary. In addition, annual payments by the Province to the Reserve Fund of $703 (2020: $703) are made towards the unfunded liability of the Unregistered Plan.

c) RETIREMENT BENEFITS

The Registered Plan provides for a pension of 2.0% for each year of pensionable service based on the average of the highest five consecutive years of pensionable salary for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit. The capped salary is set to ensure the benefit accrual is not greater than the defined limit under the *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%.

Together the Registered Plan and Unregistered Plan provide a pension based on 2.0% of a member's average of the highest five consecutive years of pensionable salary for years of pensionable service before April 1, 1998; 2.67% of a member's average of the highest five consecutive years of pensionable salary for years of pensionable service between April 1, 1998 to March 31, 2000 and 3.0% of a member's average of the highest five consecutive years of pensionable salary for years of pensionable service after March 31, 2000.

Members who terminated after March 31, 1998 are entitled to an unreduced pension on service after 1991 and before April 1,1998 if they are vested and have attained the age of 55 years with the sum of his or her age and judicial service amounting to at least 80 years, or have attained the age of 60 years.

Members are entitled to an unreduced pension on service after March 31,1998 if they are vested and have attained the age 60 and the sum of their age and service equals 80. Pensions are reduced at the later of age 60 or 80 factor or latest pension commencement date. The 80-factor requirement does not apply to members from December 31 in the year the member attained age 71.

d) DISABILITY PENSIONS

Unreduced pensions are payable to members who become totally disabled and retire early with at least two years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS

Members who terminate and are non-vested receive a refund of their own contributions plus interest.

Vested members who terminate and are not immediately entitled to a pension may apply for a deferred pension.

g) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province if assets are insufficient to pay for all benefits under the plans.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index for persons who terminated before April 1, 2009. For persons who terminated after March 31, 2009, pensions payable are increased each year on January 1st by an amount equal to 100% of the increase in the Alberta Consumer Price Index. The cost-of-living increase is prorated for pensions that became payable between January 1st and December 31st of the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. Both plans have elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to the investment portfolio or pension obligations. The statements provide information about the net assets available in both plans to meet future benefit payments and are prepared to assist members and others in reviewing the activities for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 4, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Registered Plan does not report the financial instruments of the pools on its statement of financial position.

The Registered Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Registered Plan reports its share of the financial risks in Note 5.

The fair value of units held by the Registered Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 4b). Investments in units are recorded in the Registered Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Registered Plan's accounts:

   i. Income distributions from the pools, based on the Registered Plan's pro-rata share of total units issued by the pools; and

   ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Registered Plan to earn investment income (see Note 13). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUE OF PENSION OBLIGATION

The value of the pension obligations and changes therein during the year are based on actuarial valuations prepared by an independent firm of actuaries. The valuations are made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuations use the projected benefit method pro-rated on service and management's best estimate, as at the measurement dates, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the pension obligations, private investments, hedge funds and private real estate investments. Uncertainty arises because:

i) actual experience may differ, perhaps significantly, from assumptions used in the calculation of the pension obligations, and

ii) the estimated fair values of the private investments, hedge funds, renewable resources and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the pension obligations, private investments, hedge funds, renewable resources and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the pension obligations are disclosed as net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Registered Plan's investments.

g) INCOME TAXES

The Registered Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

The Unregistered Plan is a RCA as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Unregistered Plan at the same rate when pension benefit payments are made to members and beneficiaries.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF is a pool comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2021, securities held by the CCITF have a time weighted rate of return of 0.4% per annum (2020: 1.9% per annum).

NOTE 4 INVESTMENTS

The Registered Plan's investments are managed at the asset class level for purposes of evaluating the Registered Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Registered Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Judges' Pension Plans Investment Committee (the Investment Committee). The fair value of the pool units is based on the Registered Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Registered Plan, and units of the pools, within the ranges approved for each asset class (see Note 5).

($ thousands)

			2021	2020
Asset class	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income securities				
Deposits and short-term securities	$ 1,167	$ -	$ 1,167	$ 806
Bonds, mortgages and private debt	46,409	9,095	55,504	49,715
	47,576	9,095	56,671	50,521
Equities				
Canadian	25,682	-	25,682	22,097
Global	42,749	1,749	44,498	32,399
	68,431	1,749	70,180	54,496
Inflation sensitive				
Real estate	-	25,626	25,626	25,484
Infrastructure	-	11,756	11,756	12,737
Renewable resources	-	1,313	1,313	1,394
	-	38,695	38,695	39,615
Strategic and currency investments*	(23)	802	779	1,321
Total investments	$ 115,984	$ 50,341	$ 166,325	$ 145,953

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 5).

a) Fair Value Hierarchy:

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Registered Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $115,984 (2020: $95,373).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, and inflation sensitive investments totalling $50,341 (2020: $50,580).

Reconciliation of Level 3 Investments

	($ thousands)	
	2021	**2020**
Balance, beginning of year	$ 50,580	$ 52,453
Investment (loss) income *	(802)	114
Purchases of Level 3 pooled fund units	5,063	5,206
Sale of Level 3 pooled fund units	(4,500)	(7,193)
Balance, end of year	$ 50,341	$ 50,580

* Investment (loss) income includes unrealized losses of ($2,930) (2020:($2,887)).

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

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

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

NOTE 4 INVESTMENTS CONTINUED

are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to inflation sensitive infrastructure investments. Currency investments consists of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pools (see Note 5f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on differences between contractual foreign exchange rates and foreign exchange forward rates. Futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 5 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Registered Plan are clearly outlined in the SIP&G approved by the Investment Committee. The purpose of the SIP&G is to ensure the Registered Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Registered Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5b).

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Investment Committee has established the following target policy asset mix:

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2021 ($ thousands)	2021 %	2020 ($ thousands)	2020 %
Fixed income securities	30 - 45%	$ 56,671	34.1	$ 50,521	34.6
Equities	30 - 50%	70,180	42.2	54,496	37.3
Inflation sensitive	15 - 35%	38,695	23.2	39,615	27.2
Strategic and currency investments	(a)	779	0.5	1,321	0.9
		$ 166,325	100.0	$ 145,953	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Registered Plan's investments in opportunistic investments that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Registered Plan.

a) Credit Risk

i) Debt securities

The Registered Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Registered Plan's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	80.7%	84.8%
Speculative Grade (BB+ or lower)	2.8%	0.6%
Unrated	16.5%	14.6%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Registered Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 5f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

gains for the Registered Plan. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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 Registered Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2021, the Registered Plan's share of securities loaned under this program is $2,989 (2020: $2,423) and collateral held totals $3,193 (2020: $2,587). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Registered Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 29% (2020: 25%) of the Registered Plan's investments, or $48,643 (2020: $37,179), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 16% (2020: 13%) and the Euro, 4% (2020: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Registered Plan would be approximately 2.9% of total investments (2020: 2.5%).

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2021:

	($ thousands)			
	2021		2020	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 26,280	$ (2,628)	$ 18,626	$ (1,863)
Euro	6,476	(648)	4,908	(491)
British pound	3,851	(385)	2,756	(276)
Japanese yen	2,864	(286)	2,753	(275)
Other foreign currency	9,172	(917)	8,136	(813)
Total foreign currency investments	$ 48,643	$ (4,864)	$ 37,179	$ (3,718)

[a] Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Registered Plan's total investments.

c) Interest Rate Risk

The Registered Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Registered Plan would be approximately 2.1% (2020: 2.1%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Registered Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Registered Plan would be approximately 4.9% of total investments (2020: 5.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Registered Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Registered Plan are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate and infrastructure are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The 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 Registered Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 5f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Registered Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2021**	**2020**
Contracts in net favourable position (current credit exposure)	74	$ 2,086	$ 16,365
Contracts in net unfavourable position	10	(993)	(24,129)
Net fair value of derivative contracts	84	$ 1,093	$ (7,764)

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $2,086 (2020: $16,365) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 5. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	2021	2020
Equity-based derivatives	$ 378	$ (4,529)
Foreign currency derivatives	539	(2,093)
Interest rate derivatives	143	(1,145)
Credit risk derivatives	33	3
Net fair value of derivative contracts	$ 1,093	$ (7,764)

(i) Equity-based derivatives include equity swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

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

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

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

(v) At March 31, 2021, deposits in futures contracts margin accounts totaled $890 (2020: $2,992). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $1,738 (2020: $6,582) and $nil (2020: $nil).

NOTE 6 DUE FROM RESERVE FUND

The Provincial Judges and Masters in Chambers Reserve Fund is established to collect contributions from the Province and to invest the funds, which are set aside to meet future benefit payments of the Unregistered Plan. Separate financial statements are prepared for the Reserve Fund and can be found in the Ministry of Alberta Treasury Board and Finance Annual Report. The table below summarizes the net assets of the Reserve Fund at March 31.

	($ thousands) 2021	2020
Interest-bearing securities	$ 97,895	$ 84,729
Public equities	95,986	75,460
Alternatives	38,700	40,017
Strategic currency investments	795	1,314
Receivable from the Province of Alberta	703	-
	$ 234,079	$ 201,520

During the year, net assets of the Reserve Fund increased by $32,559 (2020: decreased by $11,241), comprised of employer contributions of $8,386 (2020 $8,413), investment income of $37,205 (2020: loss of $12,046), less investment expenses of $1,052 (2020: $849), and transfers of $11,980 (2020: $6,759).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

Actuarial valuations of both plans were carried out as at March 31, 2020 by George and Bell Consulting and the results were then extrapolated to March 31, 2021. The next valuations of the plans will be carried out as at March 31, 2021. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the plans and will be accounted for as gains or losses in 2022.

The Registered Plan

The actuarial assumptions used in determining the value of the pension obligation of $168,955 (2020: $152,397) 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, 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:

	2021 %	2020 %
Discount rate	4.40	5.00
Inflation rate	2.00	2.00
Salary escalation rate	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

NOTE 7 PENSION OBLIGATION CONTINUED

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2021 to determine the pension obligation of $245,902 (2020: $248,851) were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 4.5% per annum (2020: 4.4%).

NET EXPERIENCE GAINS/LOSSES

The Registered Plan net experience losses of $815 (2020: gains $526) reflect the results of the valuation as at March 31, 2020 extrapolated to March 31, 2021.

The Unregistered Plan net experience gains of $15,147 (2020: gains $25) reflect the results of the valuation as at March 31, 2020 extrapolated to March 31, 2021.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The Registered Plan's future experience will differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

The following is a summary of the sensitivities of the Registered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2021:

	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%	$16.0	3.8%
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%)	$21.2	6.7%

* As a % of capped pensionable earnings

The following is a summary of the sensitivities of the Unregistered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2021:

	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%	$26.8	7.9%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$7.5	5.6%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$34.0	13.5%

* As a % of excess pensionable earnings

NOTE 8 SURPLUS (DEFICIT)

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2021	**2020**	**2021**	**2020**
(Deficit) surplus at beginning of year	$ (6,538)	$ 13,374	$ (34,091)	$ (4,259)
Increase (decrease) in net assets available for benefits	20,243	(13,953)	37,237	(11,177)
Net (increase) decrease in pension obligation	(16,558)	(5,959)	2,949	(18,655)
(Deficit) surplus at end of year	$ (2,853)	$ (6,538)	$ 6,095	$ (34,091)

NOTE 9 CONTRIBUTIONS

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2021	**2020**	**2021**	**2020**
Current service				
Employer	$ 3,597	$ 3,752	$ 1,228	$ 1,277
Employees	1,283	1,251	1,223	1,281
	$ 4,880	$ 5,003	$ 2,451	$ 2,558

NOTE 10 INVESTMENT INCOME

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

	($ thousands)			
	Income	Change in Fair Value	2021	2020
Fixed income securities	$ 4,247	$ (1,550)	$ 2,697	$ 1,909
Equities				
Canadian	3,975	6,467	10,442	(5,505)
Foreign	6,244	8,043	14,287	(5,321)
	10,219	14,510	24,729	(10,826)
Inflation sensitive				
Real estate	(104)	(1,651)	(1,755)	29
Infrastructure	403	(518)	(115)	(196)
Renewable resources	50	(86)	(36)	76
	349	(2,255)	(1,906)	(91)
Strategic and currency investments	488	(443)	45	(28)
	$ 15,303	$ 10,262	$ 25,565	$ (9,036)

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $621 and $9,640 respectively (2020: $771 and ($14,757) respectively). Realized and unrealized gains and losses on currency hedges total ($52) and ($44) respectively (2020: ($1) and $20 respectively).

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

The Unregistered Plan had interest income of $18 (2020: $302).

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of the Registered Plan's investment returns, and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2021	2020	2019	2018	2017
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	15.7	(0.9)	6.3	5.2	9.5
Value added (lost) by AIMCo	1.2	(5.3)	0.7	1.1	1.3
Time weighted rate of return, at fair value (a)	**16.9**	**(6.2)**	**7.0**	**6.3**	**10.8**
Other sources (b)	(3.0)	(2.5)	(2.7)	(2.1)	(2.3)
Per cent change in net assets (c)	**13.9**	**(8.7)**	**4.3**	**4.2**	**8.5**
Per cent change in pension obligation (c)	**10.9**	**4.1**	**-**	**5.0**	**2.7**
Per cent of pension obligation supported by net assets	**98**	**96**	**109**	**105**	**105**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 6.7% (PBR: 7.3%), ten years is 7.9% (PBR: 7.6%) and twenty years is 6.6% (PBR: 6.4%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

The following is a summary of the Unregistered Plan annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2021	2020	2019	2018	2017
	in per cent				
Per cent change in net assets [(a)]	**17.3**	**(4.9)**	**8.4**	**7.6**	**13.8**
Per cent change in pension obligation [(a)]	**(1.2)**	**8.1**	**6.0**	**3.7**	**8.4**
Per cent of pension obligation supported by net assets	**102**	**86**	**98**	**96**	**93**

(a) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 12 BENEFIT PAYMENTS

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2021	**2020**	**2021**	**2020**
Retirement benefits	$ 8,679	$ 8,416	$ 9,255	$ 8,538
Death benefits	443	438	300	296
Termination Benefits	14	2	13	-
	$ 9,136	$ 8,856	$ 9,568	$ 8,834

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands)	
	2021	**2020**
Amount charged by AIMCo for: [(a)]		
Investment costs [(b)]	$ 541	$ 576
Performance based fees [(b)]	275	221
GST	10	30
	826	827
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	31	31
Total investment expenses	$ 857	$ 858
(Decrease) increase in expenses	(0.1%)	11.6%
Increase (decrease) in average investments under management	2.1%	(2.3%)
Increase (decrease) in value of investments attributed to AIMCo	1.2%	(5.3%)
Investment expense as a percent of dollar invested	0.5%	0.6%
Investment expenses per member	$ 2,674	$ 2,804

NOTE 13 INVESTMENT EXPENSES CONTINUED

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

The per cent increase in investment costs and performance based fees is 2.4% (2020: 11.9%).

(b) Internal performance fees previously included in investment costs have now been reclassed to performance based fees.

The Unregistered Plan investment expenses amounted to $22 (2020: $25) or $75 (2020: $85) per member.

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2021	2020	2021	2020
General administration costs	$ 181	$ 196	$ 154	$ 162
Actuarial fees	-	6	27	6
Other fees	28	4	-	-
	209	206	181	168
Member service expenses per member	$ 673	$ 673	$ 609	$ 575

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 15 TOTAL EXPENSES

Total Registered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $1,066 (2020: $1,064) or $3,437 (2020: $3,477) per member and 0.64% (2020: 0.73%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $203 (2020: $193) or $684 (2020: $660) per member and 0.08% (2020: 0.09%) of net assets under administration.

NOTE 16 CAPITAL

The Registered Plan defines its capital as the funded status. In accordance with the *Employment Pension Plans Act,* the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, including the use of derivatives and leverage are based on the plan's SIP&G. The asset mix and risk policies and procedures are designed to enable the plan to meet or exceed its long-term funding requirement within an acceptable level of risk.

If there is an actuarial funding surplus that exceeds the amount that is actuarially determined to be necessary to pay benefits and the costs of administering the plan, the Lieutenant Governor in Council may, with respect to any portion or all of the excess, transfer it to the Province's General Revenue Fund, or apply it towards reduction of the contributions for which the Province is liable.

If the Registered Plan is terminated and the assets are not sufficient to pay all the benefits accrued under the terms of the Registered Plan, additional contributions are payable by the Province in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Registered Plan, assets remain in the plan, those assets shall be transferred to the General Revenue Fund of the Province.

The Unregistered Plan defines its capital as the funded status as described in Notes 1a, 1b, 1g and Note 6.

NOTE 17 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 Masters in Chambers (Registered) Pension Plan and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan

The following Schedule is provided for illustrative purposes only. The Provincial Judges and Masters in Chambers (Registered) Pension Plan and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan are independent entities and, as such, there is no right of offset of these individual liabilities and assets. Data is provided using fair value of assets (not actuarial or "smoothed" values), as presented in the respective financial statements.

	($ thousands)	
	March 31, 2021	**March 31, 2020**
Net assets available for benefits - Registered Plan	$ 166,102	$ 145,859
Net assets available for benefits - Unregistered Plan *	251,997	214,760
	418,099	360,619
Pension Obligation - Registered Plan	168,955	152,397
Pension Obligation - Unregistered Plan	245,902	248,851
	414,857	401,248
Surplus/(Deficit) of aggregate assets over aggregate accrued benefits	$ 3,242	$ (40,629)

* Includes due from Reserve Fund for 2021 $234,079 (2020: $201,520)

Public Service Management (Closed Membership) Pension Plan

Financial Statements

December 31, 2020

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2020, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Public Service Management (Closed Membership) Pension Plan in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The financial statements of the Public Service Management (Closed Membership) Pension Plan are included in the *Annual Report of the Ministry of Treasury Board and Finance*. The other information comprises the information included in the *Annual Report of the Ministry of Treasury Board and Finance* relating to the Public Service Management (Closed Membership) Pension Plan, but does not include the financial statements of the Public Service Management (Closed Membership) Pension Plan and my auditor's report thereon. The *Annual Report of the Ministry of Treasury Board and Finance* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Public Service Management (Closed Membership) Pension Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Public Service Management (Closed Membership) Pension Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Public Service Management (Closed Membership) Pension Plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Public Service Management (Closed Membership) Pension Plan's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Public Service Management (Closed Membership) Pension Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

April 23, 2021
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2020

	($ thousands) 2020	2019
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 6,428	$ 6,126
Accounts receivable	161	77
Total Assets	6,589	6,203
Liabilities		
Accounts payable	11	18
Total Liabilities	11	18
Net assets available for benefits	$ 6,578	$ 6,185
Pension obligation and deficit		
Pension obligation (Note 3)	$ 436,944	$ 462,193
Deficit (Note 4)	(430,366)	(456,008)
Pension obligation and deficit	$ 6,578	$ 6,185

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2020

	($ thousands) 2020	2019
Increase in assets		
Contributions from the Province of Alberta	$ 44,400	$ 45,300
Investment income	65	146
	44,465	45,446
Decrease in net assets		
Benefit payments (Note 6)	43,830	46,084
Administration expenses (Note 7)	242	321
Legal fees	-	180
	44,072	46,585
Increase (decrease) in net assets	393	(1,139)
Net assets available for benefits at beginning of year	6,185	7,324
Net assets available for benefits at end of year	$ 6,578	$ 6,185

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2020

	($ thousands)	
	2020	**2019**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 15,410	$ 16,742
Net increase due to actuarial assumption changes (Note 3a)	3,171	3,446
	18,581	20,188
Decrease in pension obligation		
Benefits paid	43,830	46,084
	43,830	46,084
Net decrease in pension obligation	(25,249)	(25,896)
Pension obligation at beginning of year	462,193	488,089
Pension obligation at end of year (Note 3)	$ 436,944	$ 462,193

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2020

(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 pensionable service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 1006923. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management for the purpose of these financial statements.

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 of the highest five consecutive years of pensionable salary. The maximum pensionable 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 pensionable service. In addition, those members who had achieved 35 years of pensionable service before 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. The cost-of-living increase is prorated for pensions that became payable between January 1st and December 31st of the previous year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF CASH AND CASH EQUIVALENTS

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 4th business day following the year end.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the measurement date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of the pension obligation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the pension obligation (see Note 3a).

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Plan's investments.

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, 2017 by Aon and was then extrapolated to December 31, 2020.

The actuarial assumptions used in determining the value of the pension obligation of $436,944 (2019: $462,193) reflect management's best estimate, as at the measurement 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:

	2020	2019
	%	%
Inflation rate	2.00	2.00
Discount rate	3.40	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

An actuarial valuation of the Plan as at December 31, 2020 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2021.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

NOTE 3 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2020:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	$ 20,947
Discount rate decrease holding the inflation rate assumption constant	(1.0)	37,766

NOTE 4 DEFICIT

	($ thousands)	
	2020	2019
Deficit at beginning of year	$ (456,008)	$ (480,765)
Increase (decrease) in net assets available for benefits	393	(1,139)
Net decrease in pension obligation	25,249	25,896
Deficit at end of year	$ (430,366)	$ (456,008)

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, 2020, securities held by the Fund have a time weighted rate of return of 0.92% per annum (2019: 1.9% per annum).

NOTE 6 BENEFIT PAYMENTS

	($ thousands)	
	2020	2019
Retirement benefits	$ 42,547	$ 44,661
Disability benefits	145	182
Death benefits	1,138	1,241
	$ 43,830	$ 46,084

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands) 2020	2019
General administration costs	$ 222	$ 298
Investment management costs	11	14
Actuarial fees	9	9
	$ 242	$ 321

General administration costs were paid to Alberta Pensions Services Corporation on a cost-recovery basis. The Plan's share of the Corporation's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board, Minister of Finance.

Investment management costs were paid to Alberta Investment Management Corporation and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $158 (2019: $199) per member.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by Alberta Pensions Services Corporation and the Plan's actuary.

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Supplementary Retirement Plan for Public Service Managers

Financial Statements

December 31, 2020

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2020, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Supplementary Retirement Plan for Public Service Managers in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Supplementary Retirement Plan for Public Service Managers' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Supplementary Retirement Plan for Public Service Managers' financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Supplementary Retirement Plan for Public Service Managers' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Supplementary Retirement Plan for Public Service Managers' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Supplementary Retirement Plan for Public Service Managers to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

April 23, 2021
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2020

	($ thousands) 2020	2019
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 16,114	$ 18,250
Refundable income tax (Note 1f and Note 5)	35,117	35,872
Contributions receivable		
Employers	8	110
Employees	6	109
Other receivables	1	4
Due from Alberta Pensions Services Corporation	401	378
Due from SRP Reserve Fund (Note 6)	159,268	153,607
Total Assets	210,915	208,330
Liabilities		
Income tax payable	249	216
Other payables	30	17
Total Liabilities	279	233
Net assets available for benefits	210,636	208,097
Pension obligation and deficit		
Pension obligation (Note 7)	270,608	252,795
Deficit (Note 8)	(59,972)	(44,698)
Pension obligation and deficit	$ 210,636	$ 208,097

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2020

	($ thousands) 2020	2019
Increase in assets		
Contributions (Note 9)	$ 4,847	$ 5,476
Increase in SRP Reserve Fund (Note 6)	5,661	20,450
Investment income (Note 10)	1,595	1,466
	12,103	27,392
Decrease in assets		
Benefit payments (Note 11)	8,807	7,999
Investment expenses (Note 12)	46	51
Administrative expenses (Note 13)	711	822
	9,564	8,872
Increase in net assets	2,539	18,520
Net assets available for benefits at beginning of year	208,097	189,577
Net assets available for benefits at end of year	$ 210,636	$ 208,097

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2020

	($ thousands) 2020	2019
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 11,104	$ 10,445
Net increase due to actuarial assumption changes (Note 7a)	12,443	-
Benefits earned	7,951	9,074
	31,498	19,519
Decrease in pension obligation		
Benefits paid	8,807	7,999
Net decrease (increase) due to actuarial assumption changes (Note 7a)	-	1,096
Net experience gains (Note 7b)	4,878	17,516
	13,685	26,611
Net increase (decrease) in pension obligation	17,813	(7,092)
Pension obligation at beginning of year	252,795	259,887
Pension obligation at end of year (Note 7)	$ 270,608	$ 252,795

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2020

(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 02/2020). The President of Treasury Board, Minister of Finance has overall responsibility for the operations of the Plan and is responsible for investments. Alberta Treasury Board and Finance is management for the purpose of these financial statements. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the MEPP salary cap. The Plan is supplementary to 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 have attained 35 years of combined pensionable service cannot subsequently start participating in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions, which together with investment earnings and transfers from the Supplementary Retirement Plan 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, 2020 were 12.80% (2019: 12.80%) of pensionable earnings over the MEPP salary cap limit for eligible employees and designated employers.

An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the President of Treasury Board, Minister of Finance.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the MEPP salary cap for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

Vested members are entitled to an unreduced pension on service if they have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

Disability, death, termination benefits and cost-of-living adjustments under this Plan usually follow those of the MEPP.

d) GUARANTEE

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

e) SURPLUS PLAN ASSETS

The Province of Alberta has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Province of Alberta.

f) INCOME TAXES

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefit payments are made to Plan members and beneficiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

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

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

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

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

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

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Plan's accounts:

   i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools; and

   ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 12). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 measurement date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in 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

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Plan's investments.

NOTE 3 INVESTMENTS

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

	($ thousands)			
	Fair Value Hierarchy [(a)]		**2020**	**2019**
Asset class	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities				
Cash and short-term securities	$ 565	$ -	$ 565	$ 192
Bonds	15,549	-	15,549	18,058
Total Investment	$ 16,114	$ -	$ 16,114	$ 18,250

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $16,114 (2019: $18,250).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totalling $nil (2019: $nil).

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

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

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4d). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on discounted cash flows using current market yields and current forward exchange rates. Futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the 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.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 25-45% fixed income instruments, 35-60% equities, and 12.5-30% alternative investments.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The table below summarizes debt securities by credit rating at December 31, 2020:

Credit rating	2020	2019
Investment Grade (AAA to BBB-)	94.6%	96.2%
Speculative Grade (BB+ or lower)	2.1%	0.7%
Unrated	3.3%	3.1%
	100.0%	**100.0%**

ii) Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4d). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Plan. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2020, the Plan's share of securities loaned under this program is $19 (2019: $1,678) and collateral held totals $20 (2019: $1,796). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 7.5% (2019: 7.9%).

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 units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4d).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

d) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2020**	**2019**
Contracts in net favourable position (current credit exposure)	13	$ 62	$ 22
Contracts in net unfavourable position	9	(15)	(89)
Net fair value of derivative contracts	22	$ 47	$ (67)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $62 (2019: $22) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2020**	**2019**
Equity-based derivatives	$ -	$ (1)
Interest rate derivatives	35	(70)
Foreign currency derivatives	18	11
Credit risk derivatives	(6)	(7)
Net fair value of derivative contracts	$ 47	$ (67)

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

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

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

(iv) At December 31, 2020, deposits in futures contracts margin accounts totaled $92 (2019: $118). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $137 (2019: $155) and $nil (2019: $nil).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2020	2019
Refundable income tax at beginning of year	$ 35,872	$ 36,541
Tax on employees and employers contributions received	2,527	2,839
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(3,282)	(3,508)
Refundable income tax at end of year	$ 35,117	$ 35,872

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the President of Treasury Board, Minister of Finance. The employer contribution rate is 9.9% 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 President of Treasury Board, Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2020, the SRP Reserve Fund had net assets with fair value totalling $159,268 (2019: $153,607), comprising of $159,268 (2019: $153,607) in investments and $nil (2019: $nil) in receivables. The increase during the year of $5,661 (2019: $20,450) is attributed to contributions from employers of $1,779 (2019: $2,078), investment gains of $3,882 (2019: $18,372).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2018 by Aon and results were then extrapolated to December 31, 2020.

The actuarial assumptions used in determining the value of the pension obligation of $270,608 (2019: $252,795) reflect management's best estimate, as at the measurement 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 determined by taking the plan specific asset allocation and applying the expected long term asset returns determined by an independently developed investment model; less expected plan investment expenses; and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 7 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2020	2019
	%	
Discount rate on an after-tax basis	4.10	4.40
Inflation rate	2.00	2.00
Discount rate	5.00	5.60
Salary escalation rate *	3.00	3.00
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2021. 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 2022.

b) NET EXPERIENCE GAINS

Net experience gains of $4,878 (2019: $17,516) reflect the results of the valuation as at December 31, 2018 extrapolated to December 31, 2020.

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.

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, 2020:

	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	($ thousands)		
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	22,047	707
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	52,957	4,132
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	48,700	2,044

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands) 2020	2019
Deficit at beginning of year	$ (44,698)	$ (70,310)
Increase in net assets available for benefits	2,539	18,520
Net (increase) decrease in pension obligation	(17,813)	7,092
Deficit at end of year	$ (59,972)	$ (44,698)

NOTE 9 CONTRIBUTIONS

	($ thousands) 2020	2019
Employers	$ 2,425	$ 2,735
Employees	2,422	2,741
	$ 4,847	$ 5,476

NOTE 10 INVESTMENT INCOME

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

	($ thousands) Income	Change in Fair Value	2020	2019 Total
Interest-bearing securities	$ 901	$ 694	$ 1,595	$ 1,466

The change in fair value includes realized gains and losses from disposal of pool units totaling $227 (2019: $38) and unrealized gains and losses on units totaling $467 (2019: $747).

Income earned in pools is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, and income and expense on derivative contracts.

NOTE 11 BENEFIT PAYMENTS

	($ thousands) 2020	2019
Retirement benefits	$ 7,847	$ 6,981
Termination benefits	895	969
Death benefits	65	49
	$ 8,807	$ 7,999

NOTE 12 INVESTMENT EXPENSES

	($ thousands) 2020	2019
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 20	$ 25
GST	1	1
	21	26
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	25	25
Total investment expenses	$ 46	$ 51
Increase (decrease) in expenses	(9.8%)	4.1%
Decrease in average investments under management	(8.8%)	(5.8%)
Investment expense as a percent of dollar invested	0.3%	0.3%
Investment expenses per member	$ 19	$ 21

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

The per cent (decrease) increase in investment costs and performance based fees is (20.0%) (2019: 8.7%).

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $711 (2019: $822) were charged to the Plan on a cost recovery basis.

	($ thousands) 2020	2019
General administration costs	$ 696	$ 779
Actuarial fees	15	42
Other professional fees	-	1
	$ 711	$ 822
Member service expenses per member	$ 296	$ 344

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the President of Treasury Board, Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $757 (2019: $873) or $316 (2019: $365) per member and 0.36% (2019: 0.42%) 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 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

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