Treasury Board and Finance

Annual Report
2017-2018

Alberta
Government

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Alberta Treasury Board and Finance
Communications
9th Floor, Federal Building
9820 - 107 Street
Edmonton, Alberta, T5K 1E7

Phone: 780-427-3035
Toll free within Alberta: dial 310-0000, then 780-427-3035

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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 21 ministries.

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

On July 4, 2017, the government announced a new structure for the Public Agency Secretariat (PAS) which was merged with the Public Service Commission (PSC). The PSC is under the responsibility of the President of the Treasury Board, Minister of Finance. Effective September 1, 2017, the government consolidated communications and marketing functions into a new structure - Communications and Public Engagement (CPE), a division of the Ministry of Treasury Board and Finance. The 2017-18 ministry annual reports and financial statements have been prepared based on this structure.

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

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

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2018, 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 6, 2018 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

Joe Ceci
President of Treasury Board, Minister of Finance

Message from the Minister

Our government remains focused on making the lives of Albertans better. In 2017-18, Alberta began its recovery from the deep recession that began in 2015 when global oil prices collapsed. Economic growth exceeded expectations and we saw solid improvements in the labour market, with employment expanding and the unemployment rate coming down. While Alberta is on a path to recovery, many households and communities are still feeling the effects of the economic downturn, so we will not stop working hard until all Albertans are feeling the recovery.

My Ministry, Treasury Board and Finance (TBF), worked diligently to carry out the commitments made in *Budget 2017*. This included working closely with the insurance industry to ensure no resident of Fort McMurray was left behind by ensuring extensions were provided for those still working to resolve their insurance claims related to the devastating 2016 Wood Buffalo wildfire. As part of the government's Climate Leadership Plan that will help diversify the economy, create jobs and reduce emissions; the carbon levy was increased to $30 per tonne from $20 per tonne of carbon dioxide emissions. The $1.04 billion in revenue collected in 2017-18 from the levy was invested and continues to be invested back into the economy through green infrastructure, energy efficiency programs, renewable energy, bioenergy and innovation.

In 2017-18, total revenue for the Ministry was $25,725 million, which is $230 million higher than budget. Although government saw a decline in income tax revenue, this was more than offset by investment income being $923 million higher than budget due to stronger than expected financial market performance. Total expenses for the ministry were $2,920 million, $387 million lower than budget mainly due to positive performance of the pension plans.

We made amendments to Alberta's tax legislation to improve communication with tax filers and to update and clarify Alberta's tax laws. Alberta received $7.5 billion in revenue from several tax and revenue programs administered by TBF including personal and corporate income tax, fuel tax, tobacco tax, insurance tax, carbon levy and tourism levy. Alberta continues to have an overall tax advantage compared to other provinces, with no provincial sales tax, health premium or payroll tax. Albertans and Alberta businesses paid approximately $8.7 billion less in total taxes last year compared to other provinces.

We also made practical changes to how government operates by controlling costs and working more efficiently as one government. The ongoing consolidation of corporate services across government, including human resources, communication and information technology, demonstrates our commitment to carefully manage costs while still providing quality public programs and services.

We have prudently managed public sector compensation, continued hiring restraint across government departments and a salary freeze on management and non-union employees across the public sector. Further, savings and efficiencies of approximately $33 million will be achieved over three years through the amalgamation, dissolutions and administrative efficiencies of several of Alberta's agencies, boards and commissions.

In February 2017, we cut compensation for the highest paid executives of provincial agencies, and bonuses and perks such as golf club memberships and housing allowances were discontinued, saving approximately $16 million per year once fully implemented.

Subsequent to the tabling of *Budget 2017*, the Federal government tabled legislation on the legalization of cannabis. All levels of government have demonstrated their commitment to implementing a safe and regulated cannabis framework. We worked closely with the federal, provincial and territorial governments to reach an agreement on the coordination of cannabis pricing and taxation to help push out the illegal market, keep cannabis out of the hands of children and youth, ensure safety in public spaces, and protect public health.

Our government remains committed to transparent, accountable and efficient government. The timely and reliable reporting of financial information through reports like this annual report, the fiscal plan and quarterly reports are crucial for fiscal accountability. Alberta's fiscal reporting has never been stronger, and TBF has earned external recognition for the timely, reliable and relevant presentation of financial information. For the third year in a row, Alberta received an A+ rating for its fiscal accountability by the CD Howe Institute.

The 2017-18 fiscal year also saw government secure labour agreements that reflect the fiscal interests of Albertans while still meeting the needs of the staff involved. We achieved successful agreements with the Alberta Teachers' Association, United Nurses of Alberta, and Health Sciences Association of Alberta, featuring restrained compensation costs that reflect our challenging fiscal environment. Ensuring fair and practical agreements with public sector unions is a key step along this province's path to balance.

If Alberta's ongoing economic recovery is to continue and last, we must create good jobs in a diversified economy. Part of our plan this past year has involved creating more opportunities for diversification in value-added agricultural, energy and petrochemical sectors. Alberta's craft brewing industry is an example of the tangible results of a diverse and growing Alberta economy. The number of brewers in Alberta grew rapidly as a result of our support, from 46 brewers in September 2016 to 80 in March 2018.

In the 2017-18 fiscal year, ATB Financial presented significantly improved results, with net income increasing by $127 million (84 per cent) from the prior fiscal year, as a result of a significant $130 million (55 per cent) decrease in their provision for loan losses. Further, ATB's net contribution to the Government of Alberta, comprised of net income, payment in lieu of taxes, and deposit guarantee fee for 2017–18 was $401 million, an increase of $162 million (68 per cent) from last year's $239 million.

Our government will continue to focus on the economy's recovery. Our plan is to further diversify the economy to create a more stable future for Alberta, while continuing to support public programs and services. We are fighting to make sure that this economic recovery is built for all Albertans and built to last.

[Original signed by]

Joe Ceci
President of Treasury Board, Minister of Finance

Management's Responsibility for Reporting

The Ministry of Treasury Board and Finance includes:

- Department of Treasury Board and Finance
- Alberta Cancer Prevention Legacy Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage 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 and Liquor Commission
- Alberta Local Authorities Pension Plan Corp.
- Alberta Lottery Fund
- Alberta Investment Management Corporation
- Alberta Pensions Services Corporation
- Alberta Securities Commission
- ATB Financial and its subsidiaries
- Credit Union Deposit Guarantee Corporation
- N.A. Properties (1994) Ltd.
- Gainers Inc.

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

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

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

- Reliability – Information used in applying performance measure methodologies agrees with 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 2017*.

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, 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]

Lorna Rosen, CPA, CMA, MBA

Deputy Minister of Treasury Board and Finance

June 6, 2018

Results Analysis

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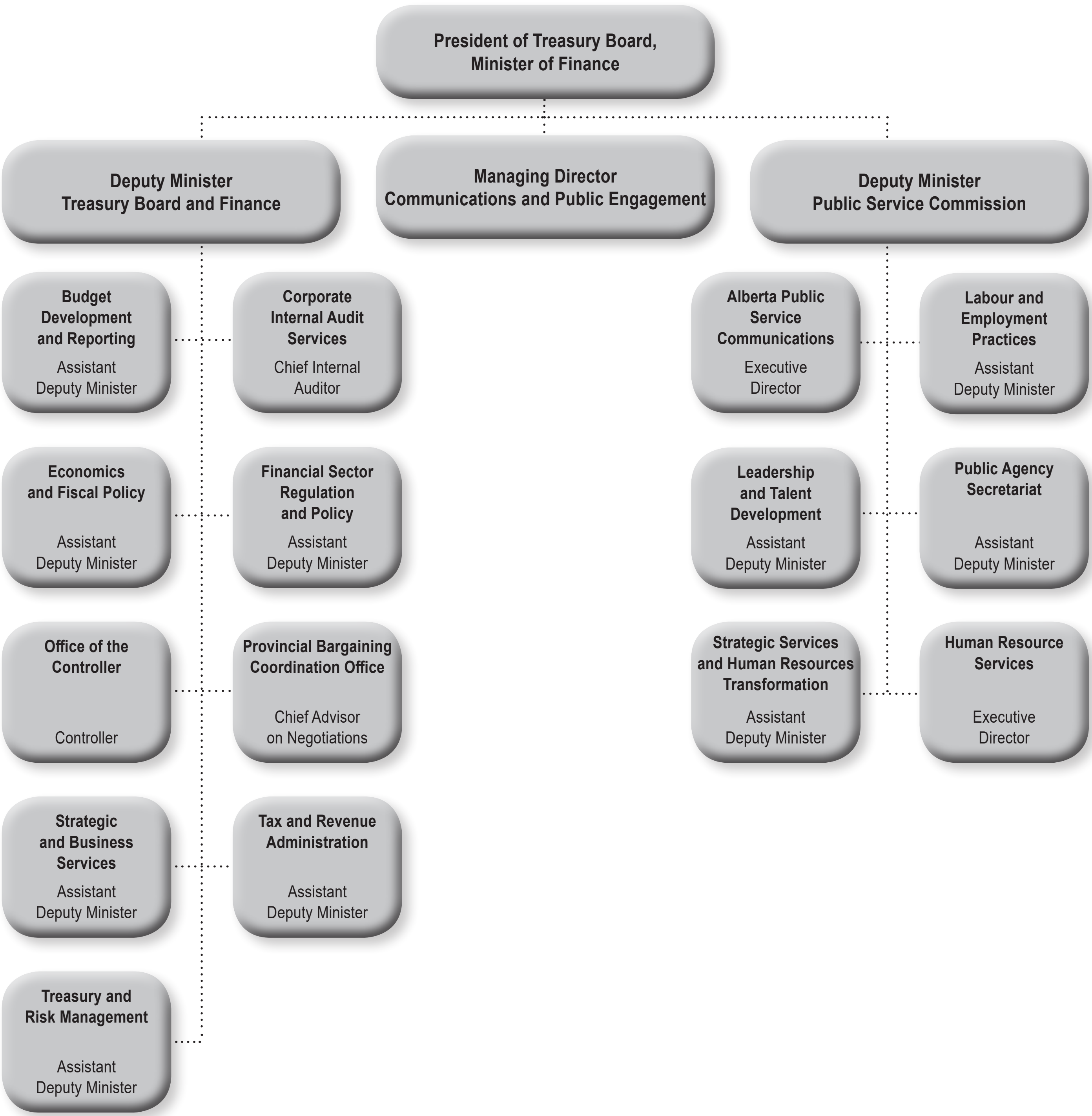
Ministry Overview

Organizational Chart



Operational Overview

Treasury Board and Finance:

Budget Development and Reporting

Budget Development and Reporting provides timely, relevant and accurate budget analysis, advice and recommendations to decision-makers (Premier, Cabinet, Minister, Treasury Board and other bodies). The division provides guidance to ministries on budgets, business and strategic planning, enterprise risk management as well as performance measurement and reporting within an environment of continuous improvement. Budget Development and Reporting is accountable for the government's budgeting (annual budget and quarterly fiscal updates) and annual performance reporting.

Corporate Internal Audit Services

Corporate Internal Audit Services performs internal audits across government. The division helps ministries achieve their goals by bringing a systematic, disciplined approach to evaluating and recommending improvements to risk management, control and governance processes.

Economics and Fiscal Policy

Economics 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; forecasting the economy, population, tax revenues and federal transfers for the budget and quarterly fiscal updates; and preparing budget material (e.g., tax and economic outlook chapters, quarterly economic statements). The division also oversees federal-provincial fiscal relations, including major federal-provincial transfers; cross-ministry support on federal, provincial and municipal fiscal issues; cross-ministry statistical services and the provincial focal point for Statistics Canada; and economic impact and fiscal analysis of policy and program initiatives.

Financial Sector Regulation and Policy

Financial Sector Regulation and Policy has two primary functions: providing policy support and analysis for insurance, provincially regulated financial institutions and private sector pensions; and regulating and supervising loan and trust corporations, financial institutions, insurance companies and registered private sector pension plans.

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 (i.e., financial and audit risk) 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.

Provincial Bargaining Coordination Office

The Provincial Bargaining Coordination Office (PBCO; formerly Public Sector Working Group) 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 strategic advice, negotiations support, compensation research, and leadership to government and its funded employer partners on public sector labour relations matters.

Strategic and Business Services

Strategic and Business Services supports the ministry's operations by leading the implementation of a robust strategic planning and reporting framework; offering financial advisory, planning and accounting services; delivering strategic policy leadership and support; managing information and records; information technology application maintenance, development and support; managing facility operations; and delivery of human resources services. The division also supports the government's relationship with the Alberta Gaming and Liquor Commission and Horse Racing Alberta.

Tax and Revenue Administration

Tax and Revenue Administration administers tax, revenue and other programs under 10 Acts, including the *Alberta Corporate Tax Act*, the *Fuel Tax Act*, the *Tobacco Tax Act*, the *Tourism Levy Act* and the *Climate Leadership 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.

Treasury and Risk Management

Treasury and Risk Management manages the province's cash resources and banking arrangements, and negotiates debt financing for the government and provincial corporations. It provides investment policy advice as well as portfolio planning and evaluation for investments in the Alberta Heritage Savings Trust Fund, the General Revenue Fund and other government endowment funds. The division also assists in the identification, measurement, control and financing of the risks of accidental loss to government.

Public Service Commission:

Effective April 1, 2018, Human Resource Services across the Alberta Public Service (APS) are now delivered by the PSC.

Labour and Employment Practices

Labour and Employment Practices provides expert consulting and training to ministries in support of employee health, safety, and wellness practices, talent acquisition, job evaluation, employee classification and compensation. Additional responsibilities include: delivering employee benefits, pensions and programs; leading human resource policy development and managing directives; and conducting collective bargaining and labour relations between the Alberta Union of Provincial Employees and the Government of Alberta.

Leadership and Talent Development

Leadership and Talent Development develops and implements talent management and leadership development initiatives to ensure employees have the skills, training, and resources they need to succeed in the public service and effectively serve Albertans. Additional key responsibilities include: leading the implementation of ENGAGE: Our Alberta Public Service People Strategy, providing learning opportunities and professional development, and attracting and recruiting executive managers and senior officials.

Strategic Services and Human Resources Transformation

Strategic Services and Human Resources Transformation supports a modern, effective, and responsive public service by supporting APS policy capacity, human resources strategy development and workforce data analysis. In addition to the work of the Diversity and Inclusion Secretariat, policy initiatives include the Policy Essentials training program, policy internship program, and the biennial Policy Matters Conference. The division also provides corporate services to the PSC, including finance, strategic and business planning, accommodations, legislative planning, and intergovernmental services.

APS Communications

APS Communications provides strategic communications expertise to the PSC, leads APS-wide employee communications, and promotes the public service as an employer. The division supports the Deputy Minister of the PSC, the PSC leadership team, the Deputy Minister of Executive Council, and the President of Treasury Board, Minister of Finance. It works closely with CPE, and internal communications teams in all departments to ensure communications are coordinated, effective and aligned.

Public Agency Secretariat

The Public Agency Secretariat (PAS) moved to the PSC in 2017-18 to leverage administrative and operational efficiencies. The PAS collaborates with departments and public agencies to promote a consistent approach to public agency governance, recruitment and compensation.

Communications and Public Engagement:

Communications and Public Engagement (CPE) is government’s full-service communications, public relations and marketing office. Its mandate is to enhance communications between the Government of Alberta and Albertans. CPE communicates government’s key priorities to all Albertans. This is accomplished by providing a wide array of communications activities and services, including: strategic advice to ministries to support submissions to Cabinet and its committees, public opinion survey results, social media reaction and traffic, new releases, announcements, etc.

Key Highlights in the Past Year

During the past year, Treasury Board and Finance (TBF) continued to support Alberta's economic recovery and contribute to government's priorities and *Budget 2017* initiatives that focus on making life better for Albertans. Some of the objectives and key highlights were:

Carefully managed government expenditures

- ► Throughout fiscal 2017-18, and in the development of *Budget 2018*, TBF provided advice and recommendations on important investments and various cost saving measures to continue to support the services Albertans rely on while limiting the rate of spending growth. Examples include:
  - Managed public sector compensation, including ongoing hiring restraint:
    - ♦ The size of the APS has remained relatively flat through an ongoing hiring restraint. The hiring restraint has resulted in cumulative savings of $204 million and is being enhanced, including by looking for opportunities to reallocate APS staff to priority areas.
    - ♦ In 2017-18, successful agreements were achieved with the Alberta Teachers' Association, United Nurses of Alberta, and Health Sciences Association of Alberta. These negotiated agreements have allowed government to invest in better work environments, provide job security, and ensure the stability of critical services to the benefit of all Albertans.
    - ♦ Compensation was cut for the highest paid executives of provincial agencies, and bonuses and perks like golf club memberships and housing allowances were discontinued. It will save government and agencies an ongoing $16 million per year once fully implemented.
    - ♦ The government's salary freeze on management and non-union public-sector employees has been extended to September 2019, saving approximately $29 million a year.
- ► Continued focus on tightly managing discretionary spending across government:
  - Departments, agencies, boards and commissions (ABCs), and post-secondary institutions (PSIs) were directed to restrain their discretionary spending;
  - Discretionary spending in departments has declined by 23% from 2014-15 to 2017-18.
  - ABCs and PSIs developed a plan to reduce spending by an additional $10 million per year, with a number of measures already taken to limit discretionary spending.
- ► Identified savings of $33 million to be achieved over three years through agency amalgamations and dissolutions, as well as significant administrative efficiencies.
- ► Consolidated human resource services across government. This initiative is expected to save up to $11 million once fully implemented and will contribute to efficient, consistent and coordinated human resource services across government, and an agile and engaged workforce.

Ensure transparent, accountable and efficient government

- ► Delivered the timely, reliable and relevant presentation of financial information in Alberta's budgets, estimates and public accounts which has earned Alberta an A+ rating, for the third consecutive year, in the fiscal accountability study by the C.D. Howe Institute (*The Numbers Game: Rating the Fiscal Accountability of Canada's Senior Governments, 2018*).

- Continued the review of Alberta's public agencies to ensure they are effective, efficient, transparent and accountable to the people of Alberta.
- Drafted new legislation and regulation (*Reform of Agencies, Boards and Commissions Compensation Act*), and took other steps to improve board governance, accountability and transparency.
- Supported and participated in the Province's "One Government" Transformation Initiatives, which are focused on modernizing the way the APS delivers corporate services. These efforts include improving governance, organizational structures, business processes and technology pertaining to Enterprise Resource Planning (ERP) and treasury activities.
- Amended the *Securities Act* – the first province in Canada to do so - to give the Investment Industry Regulatory Organization of Canada (IIROC) increased legal authority. This legislation provides the IIROC with greater legal powers and protections, enabling it to collect evidence and prosecute offenders who harm investors. The IIROC, as well as its disciplinary tribunals, is now protected from lawsuits for acting in good faith in carrying out its public interest mandate.
- Worked with financial institutions to enhance reporting capabilities to improve transparency and accuracy.
- Worked with the Ministry of Status of Women to integrate Gender Based Analysis Plus (GBA+) analysis in the *Budget 2018* Fiscal Plan and ministry business plans. GBA+ helps ensure that government's work includes equity measures that address Albertans' diverse needs and support equal outcomes. Gender budgeting includes providing gender analysis in business planning and annual reporting processes, as well as in policies and programs funded by the government.
- Contributed and worked to influence the direction and evolution of public sector accounting guidance in Canada, by actively participating in the Public Sector Accounting Standard Board's due process procedure, conducting research and providing input for the development of new accounting standards for the public sector. This is a crucial step in enabling government to provide transparent and consistent results of operations to their stakeholders.

Supporting Alberta's Small Liquor Manufacturers and Cannabis Legislation

- Continued to work with the Alberta Gaming and Liquor Commission (AGLC) to support the rapid growth of the craft brewing industry. The number of brewers in Alberta grew from 46 in September 2016 to 80 in March 2018. The market share of product from Alberta small breweries rose from 9.1 per cent to 12 per cent.
- Contributed, in partnership with AGLC, to the development of the Cannabis Framework to prepare for the federal legalization of recreational cannabis. In 2017, Alberta released the proposed legislation, *An Act to Control and Regulate Cannabis*, regarding the legalization of cannabis, in which it states that the AGLC is responsible for the regulatory oversight and distribution of cannabis in Alberta.

- Partnered with the AGLC to review policies that meet the needs of a constantly-evolving liquor industry while ensuring public safety and benefit. The AGLC continued to work with stakeholders to find ways to modernize policies and explore opportunities that lead to progressive developments in the industry. Some examples of updated liquor policies include:
  - Creating opportunities for spas, salons and barbershops to serve liquor.
  - Easing restrictions on patios for licensed restaurants and bars.
  - Creating a new taproom licence that allows producers to offer onsite food service, events and entertainment.
  - Allowing small producers to operate licensed restaurants or bars at a separate site.
  - Permitting the sale of Alberta craft beers and spirits at approved farmers' markets alongside cottage wine.

Provincial Bargaining Coordination Office

- Researched, prepared and updated bargaining mandates for relevant bargaining tables in the 2017-18 round (Health Care, Education, Post-Secondary Education and the APS). Mandates which reflected the government's fiscal interests were reviewed and approved by government and subsequently issued to all affected public sector employers for bargaining.

Ensure effective tax administration

- Processed more than 333,000 corporate and commodity returns and approximately 9,000 benefit claims.
- Recorded $7.5 billion from several tax and revenue programs administered by TBF, including corporate income tax, fuel tax, tobacco tax, insurance tax, carbon levy, and tourism levy.
- Provided a new online reassessment filing system for carbon levy remitters. This improvement allows carbon levy remitters to perform all of their filing and reporting electronically and reduces manual processing.
- Continued to promote compliance with Alberta's corporate and commodity programs with the recovery of more than $46.3 million through tax audits.
- Received a total of 213,612 tax returns which were filed using the ministry's net file system, constituting 88 per cent of all corporate income tax returns. As of March 31, 2018, 73 per cent of Tourism Levy returns, 81 per cent of International Fuel Tax Agreement returns, 100 per cent of Emergency 911 Levy returns, and 100 per cent of Carbon Levy Remitter Returns were submitted electronically. These results reflect the continued promotion and increased use of electronic services to improve the efficiency and effectiveness of government operations.
- Continued to reunite owners with their unclaimed property. In 2017-18, 679 cheques were issued with a total value of $1,024,642. As of March 31, 2018 there were approximately 225,000 items in the Unclaimed Property Repository with an estimated value of $82 million.
- Between April 1, 2017 and March 31, 2018, Tax and Revenue Administration issued 123 default assessments (tax year ends) for a total value of $3.4 million (includes principal, penalties and interest).

Support the APS

- Established the diversity and inclusion policy to help build an inclusive workplace that welcomes, respects and values the diversity of employees in support of our ongoing commitment to continue to make the APS a great place to work.
- Continued to support departments and agencies with open, transparent and competency based recruitments and appointments to their agencies, boards and commissions (ABCs). A diverse range of qualified individuals helps ensure ABCs can effectively execute their mandates in the best interest of Albertans. For example, new board members were appointed to the Alberta Gaming and Liquor Commission, the Horse Racing Appeal Tribunal, Alberta Investment Management Corp. (AIMCo), ATB Financial, Public Service Pension Plan and Alberta Pension Services Corporation. Today, women hold 50 per cent of board positions.
- The ENGAGE: Our Alberta Public Service People Strategy that was developed through direct feedback from more than 5,000 employees continues to be implemented across the APS.

Ministry Financial Highlights

Actual to actual comparison of year-over-year results

Revenue
(millions of dollars)

2017-18	2016-17
Actual	Actual
$25,955	$25,626

Revenue for the ministry is $329 million, or about 1 per cent higher than in 2016-17.
Comparison of year-over-year results (actual to actual)

- Personal income tax revenue was $12 million higher than the previous year due to the impact of growth in wages and employment as the economy makes a recovery from the economic downturn.
- Corporate income tax revenue along with related interest and penalties was $321 million lower than last year due to lower corporate earnings.
- Other tax revenue was higher than the previous year by $840 million. With the introduction of the carbon levy in the second half of 2016-17, there was an additional $796 million over the prior year due to the levy being in place for the entire fiscal year. Insurance taxes were higher by $27 million due to increased growth in premiums. Fuel tax revenue increased $55 million due to increased volume and tobacco tax decreased by $46 million due to decreased consumption.
- Transfers from the Government of Canada through the Canada Social Transfer program were $42 million higher. In addition, there was $30 million in economic assistance to Alberta's resource sector which did not occur in the prior year.
- Net investment income was $529 million lower than the previous year. Although the market conditions continued to be strong, they were less favorable than the prior year.
- Net income from government business enterprises was $114 million higher than last year. Income from the AGLC decreased by $2 million due to a decrease in gaming revenue streams partially offset by an increase in net liquor revenue. Income from ATB Financial was higher by $127 million as the allowance for loan losses in the current year was less than the prior year. Income from the Credit Union Deposit Guarantee Corporation (CUDGC) decreased by $12 million.
- Premiums, fees and licences increased by $44 million compared to last year. Revenue of the Alberta Securities Commission was $5 million higher mainly due to a full year of operating under the new fee rule implemented in December 2016, which increased some existing fees and established new participation fee models. Revenue from ATB Financial for the payment in lieu of taxes and deposit guarantee fee was overall $35 million higher. Revenue from Alberta Insurance Council increased by $1 million and other premiums, fees and licences revenue was $3 million higher from the prior year.

- Other revenue was up by $97 million from last year. There was a $94 million increase in service revenue from AIMCo mainly from the pension plans, and $2 million decrease in Alberta Pensions Services Corporation revenues. Miscellaneous one time revenues were up $5 million from the prior year.

Expenses
(millions of dollars)

2017-18	2016-17
Actual	Actual
$2,920	$2,180

Ministry expenses are $740 million, or about 34 per cent more than in 2016-17.
Comparison of year-over-year results (actual to actual)

- Investment, Treasury and Risk Management expenses were $82 million higher than last year. This is primarily due to AIMCo salary expense increase of $25 million and increase to AIMCo's third party management fees of $62 million resulting from stronger performance of investments compared to market average benchmarks.
- The Climate Leadership Plan – Consumer Rebates were $301 million, an increase of $149 million from prior year due to the plan being in place for a full year.
- The Alberta Family Employment and the Scientific Research and Experimental Development Tax Credits are $15 million higher than prior year as a result of enhancements for the Alberta Family Employment Tax Credit offset by less utilization by corporations for the Scientific Research and Experimental Tax Credit.
- The pension recovery was $68 million higher than last year, as there were significant increases to plan surpluses from strong performance of investments.
- The corporate income tax allowance adjustment increased by $156 million over the prior year, as there were some large tax files resolved in the prior year that resulted in a lower adjustment.
- Debt servicing for the Alberta Capital Finance Authority and general government is $400 million higher than the prior year, which is largely based on the plan set out in *Budget 2017*.
- The remaining expenses increased $6 million over the prior year.

Actual to budget comparison

Revenue
(millions of dollars)

2017-18	2017-18
Actual	Budget
$25,955	$25,725

Revenue for the ministry is $230 million, or 1 per cent higher than budget.
Comparison of budget to actual revenue results

► Personal income tax revenue was $402 million less than budget as primary household income estimates were lower than anticipated.

► Corporate income tax revenue, along with related interest and penalties, was $470 million lower than budget due to corporate earnings being less than anticipated.

► Other tax revenue from all sources was $112 million lower than budget. The largest variance was a $119 million shortfall in tobacco tax due to lower than anticipated consumption.

► Transfers from the Government of Canada were $17 million higher than budget partly due to the $30 million economic assistance to Alberta's resource sector offset by $13 million less funding from the Canada Social Transfer based on the Province's share of the national population which was lower than anticipated.

► Net investment income was $923 million higher than budget due to financial market performance continuing to perform stronger than originally anticipated.

► Net income from government business enterprises was $144 million higher than budget primarily due to increased income from ATB Financial of $185 million, offset by AGLC's $38 million lower than budgeted income due to less liquor consumption and gaming activity than anticipated, and CUDGC $3 million lower primarily due to lower investment income than anticipated.

► Premiums, fees and licences were $64 million higher than budget. This was attributed to $51 million more in total revenue from ATB Financial for the deposit guarantee fee and payment in lieu of taxes. Revenue of the Alberta Securities Commission and Alberta Insurance Council was $7 million and $1 million higher respectively. There is also $5 million in miscellaneous revenue not budgeted.

► Other revenue was $70 million higher than budget due to AIMCo's performance compensation fees from clients resulting from stronger performance of investments than originally anticipated.

Expenses
(millions of dollars)

2017-18	2017-18
Actual	Budget
$2,920	$3,307

Expenses for the ministry were $387 million, or about 12 per cent under budget.
Comparison of budget to actual revenue results

- Investment, Treasury and Risk Management expenses were $62 million higher than budget due to AIMCo's external investment fees and performance compensation resulting from stronger than originally anticipated performance of investments compared to market average benchmarks.
- Tax and Revenue Management is $6 million higher than budget as interest payments on corporate tax refunds were higher than budget as a result of resolution of some significant tax files.
- Financial Sector Regulation and Policy expenses were $12 million under budget due to pension liability funding that was lower than projected cash flow requirements and reduced cost of agencies.
- Communications and Public Engagement is $38 million higher than budget, resulting from the government reorganization that transferred responsibility to the Ministry during the year. The total original budget, which was reported in all ministries across government, was $40 million, reflecting $2 million in actual cost savings for the year.
- The Climate Leadership Plan – Consumer Rebates, which was new for the prior year, is $109 million lower than budget as a result of a timing difference in the recognition of rebates within the current and prior year and a decrease in overall rebates from what was anticipated.
- The Scientific Research and Experimental Development Tax Credit is $13 million less than budget as a result of lower program utilization than anticipated.
- The pension recovery was $373 million higher than budget, as overall pension plan performance improved.
- General government debt servicing is $47 million less than budget due to the timing of borrowing. Debt servicing costs were $69 million higher than budget for the Alberta Capital Finance Authority (ACFA) as a result of increased floating interest rates.
- All other expenses are $8 million less from other cost savings.

Discussion and Analysis of Results

Outcome One:
A strong and resilient financial foundation that supports government services for current and future generations

Planned key strategies to support this outcome:

- Act as government's chief fiscal policy advisor to ensure that strategic financial considerations are embedded into the development and implementation of all government initiatives.
- Provide useful and reliable financial and economic information, objective analysis and identification of solutions to support effective decision-making.
- Monitor the competitiveness, economic efficiency, fairness and revenue stability of Alberta's tax system and provide supporting recommendations.
- Collect and administer revenue fairly, effectively and efficiently. This includes strengthening processes with respect to tax collections and tax filing.
- Lead government's financial planning so that initiatives undertaken by departments and agencies, boards and commissions are aligned with government priorities and make the best use of government's financial assets.
- Borrow and invest strategically to sustain robust government finances.

What this means:

A strong and resilient financial foundation supports government priorities, strategic goals and services. This foundation is dependent on Alberta's current economy and its future growth. Partnering with all government ministries, TBF acts as government's chief economic and fiscal advisor, leveraging its expertise and resources to provide critical information, analysis and advice to support economic development and provide leadership in developing fiscal policies and plans. TBF manages the government's financial systems to ensure sustained revenue streams, wise spending decisions and sound borrowing and investment strategies that sustain Alberta's finances. Through these roles, TBF supports a strong and resilient financial foundation for the benefit of current and future Albertans.

Our responsibilities:

To support the achievement of this outcome, TBF tracks financial performance; recommends effective cost saving measures, revenue initiatives and investment strategies; provides reliable economic forecasts and advice to government and public; and manages financial risks.

Results and Contributions from 2017-18:

The ministry plays an important role in providing recommendations and analysis on economic and fiscal development. TBF is responsible for the management of the government's financial systems, ensuring that tax and revenue programs, cost-saving initiatives, and borrowing and investment strategies support the government's financial foundation.

Economic forecasts and analysis

In the past year, TBF continued to provide timely and reliable economic and demographic forecasts and analysis to support government's fiscal and policy decisions. The rapidly changing economic conditions in 2017-18 caused many uncertainties. These uncertainties were a major challenge that TBF had to overcome in order to provide timely and accurate information to support decision-making across government. Economic analysis is complex, and requires careful consideration of potential qualitative and quantitative impacts. The ministry leveraged its expertise and consulted extensively with government to address these challenges. In 2017-18, the ministry:

- Provided regular forecasts, analysis and advice to senior officials and Treasury Board Committee in support of *Budget 2016*, *Budget 2017* and quarterly fiscal updates.
- Published a variety of online economic publications throughout the year, including:
  - *Economic Review* (Weekly)
  - *Alberta Economy – Indicators at a Glance* (Weekly)
  - *Economic Trends* (Monthly)
  - *Labour Market Notes* (Monthly)
  - *Demographic Statistics* (Quarterly)
  - *Demographic Projections* (Annually)
- Published the Alberta Activity Index to provide a timely indicator of economic activity and improve the estimate of real Gross Domestic Product (GDP) growth.
- Published an update of the Alberta Economic Multipliers for impact analysis (estimates of direct, indirect and spin-off effects on output, GDP, government revenues, and employment from economic activity), which supports decision making related to economic projects.
- Produced demographic forecasts for budget/fiscal updates, long-term projections for Alberta and sub-provincial regions, and developed a model to produce municipal population estimates to understand the trends and impacts of Alberta's changing population.
- Provided economic and fiscal analysis, in coordination with other ministries, for a broad range of government policy decisions including Interactive Digital Media Tax Credit program, the Alberta Investor Tax Credit program, the Capital Investment Tax Credit program, energy diversification initiatives, and the ongoing roll out of the Climate Leadership Program.
- Held economic forecast consultations in December 2017 with private-sector economists to inform the government's economic forecasts. The forecast consultations helped to ensure that Alberta's economic forecast was not out of line with the private sector.
- Provided technical and policy analysis to support the Province's ongoing discussions with municipalities on a new fiscal framework. In *Budget 2018*, the Province committed to replacing the existing Municipal Sustainability Initiative program with a new funding framework with municipalities.

- Completed the Statistical Spatial Framework (SSF) project in 2017-18. The SSF project outlined a strategy to better analyze data spatially and enhance geospatial services to support the Government of Alberta (GoA) ministries. For example, the SSF models can identify where services offered by GoA are in relation to where existing clients reside, creating a better understanding of the needs of Albertans both now and into the future.
- Led and coordinated the quarterly meetings of the Data Analyst Network (DAN). The DAN communicates the analytical initiatives that take place across government to professional analysts and creates networking opportunities for analysts from GoA and external partners. Over the past year, more than 250 attendees participated in the DAN meetings. A website was set up to enable users to find analytical resources timely and conveniently. It also allows the ministry to disseminate information to GoA analysts more efficiently.
- Monitored tax developments in other jurisdictions, particularly at the federal level and in the United States, and provided accompanying analysis and advice to ensure we are making the best possible recommendations for all Albertans.
- Provided advice on the mechanism to collect Alberta's tax on cannabis, which will be implemented upon legalization.

Cost saving and revenue initiatives

The ministry supports a strong and resilient financial foundation by providing advice and recommendations to the government on spending and revenue initiatives. In the past year, TBF supported the government in finding cost saving measures to limit the growth of operating expenses while continuing to provide stable funding that supported critical public services, and supported corporate services consolidation and modernization initiatives to achieve efficiencies across government.

- Provided proactive advice and recommendations to the Treasury Board Committee and Cabinet on spending and revenue initiatives identified by ministries.
- Facilitated the allocation of spending targets to align with government priorities while targeting operating expense growth below population plus Consumer Price Index (CPI). The ministry also provided guidance and support to ministries as they worked to allocate resources to programs and projects.
- Provided advice and recommendations on various cost saving measures to help restrain the rate of spending growth throughout 2017-18, and in the development of *Budget 2018*. These cost-saving measures include:
    - Managed public sector compensation, including ongoing hiring restraint;
        - ♦ The size of the APS has remained relatively flat.
        - ♦ In 2017-18, successful agreements were achieved with the Alberta Teachers' Association, United Nurses of Alberta, and Health Sciences Association of Alberta. These negotiated agreements have allowed government to invest in better work environments, provide job security, and ensure the stability of critical services to the benefit of all Albertans.
    - Continued to focus on tightly managing discretionary spending across government:
        - ♦ Departments, ABCs, and post-secondary institutions (PSIs) were directed to restrain their discretionary spending given the fiscal situation;
        - ♦ Discretionary spending in departments has declined by 23% from 2014-15 to 2017-18; and

- ♦ ABCs and PSIs developed a plan to reduce spending by an additional $10 million per year going forward, with a number of measures already taken to limit discretionary spending.

- Supported corporate services consolidation and modernization initiatives, such as the reorganization of communications activities from all departments into CPE, to achieve efficiencies and effectiveness across government.

Performance Measure		2017-18 Target	2017-18 Actual
1.a Sustainable operating expense[1] growth (operating expense relative to the rate of population growth plus CPI)[2]		Operating expense growth will not exceed population plus CPI growth.	3.5% (operating expense) 2.8% (population plus CPI)
Explanation of Variance			
Operating expense was higher than the target primarily due to funding increases from budget required primarily for education, social services, policing and Legal Aid.			
Prior Year's Results			
3.3% (operating expense) 5.1%[3] (population plus CPI) 2013-14	4.3% (operating expense) 4.5% (population plus CPI) 2014-15	2.9%[3] (operating expense) 2.9%[3] (population plus CPI) 2015-16	3.4% (operating expense) 2.5%[3] (population plus CPI) 2016-17
Trend			
Both the 2017-18 operating expense growth and population growth plus CPI were slightly higher than 2016-17.			

Note:

1. Operating expense excludes Climate Leadership Plan.
2. The Consumer Price Index (CPI) is a measure of inflation.
3. Prior year data restated.

- Moving forward, TBF will continue to monitor and work with ministries to target expense growth below growth in population and CPI; work collaboratively on additional corporate services consolidation initiatives such as Freedom of Information and Protection of Privacy, Human Resources, Information Management Technology, Finance, and Economic Forecasting and Analysis; and assist ministries with reviews of their programs to ensure that government's programs are effective and funding is allocated where most needed.

Debt and risk management

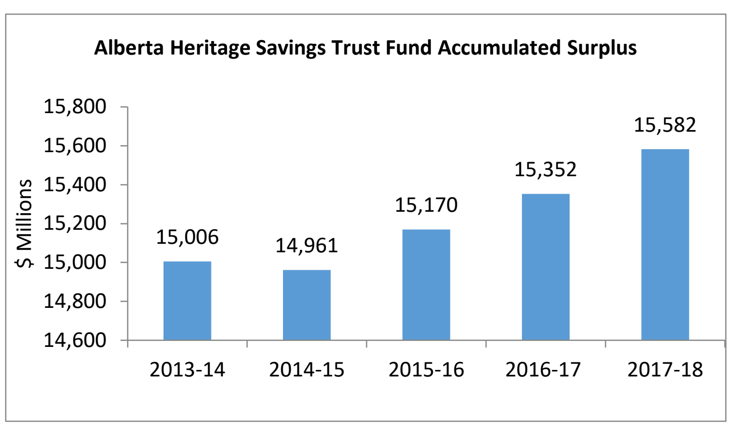
Borrowing strategically is one of the key strategies to achieve the outcome of a strong and resilient financial foundation that supports services Albertans rely on. In 2017-18, the government committed to protect critical services, like health care and eduction, as Alberta recovered from a deep recession. TBF supported the government by prudently and efficiently managing the Province's borrowing program in the last fiscal year.

- The ministry put in place various borrowing platforms where government is able to access global markets to meet its borrowing needs. These platforms help the government to diversify sources of funding and to take advantage of lower borrowing costs in other financial markets. For example, in 2017-18, TBF implemented a new short-term borrowing program in the U.S. market to diversify short-term funding sources for the Province.
- TBF is responsible for meeting financing requirements for the government's fiscal and capital programs, as well as the financing requirements of its provincial corporations. The Province's borrowing program was successfully funded through the domestic and international debt markets. As of March 31, 2018, approximately 65 per cent of this fiscal year's borrowing was completed in the domestic market.
- In 2017-18, TBF issued short-term debt in the money market to fully fund the $5 billion cash reserve, which was established in the third quarter of 2017-18. The cash reserve provides the Province with the ability to fund short-term cash requirements and provides the flexibility to issue debt when it is optimal.

Investments

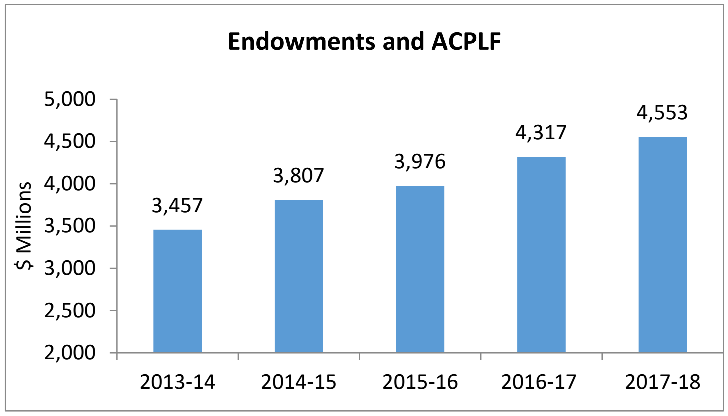
Performance Measure		2017-18 Target	2017-18 Actual
1.b The Alberta Heritage Savings Trust Fund (Heritage Fund) will earn a five-year annualized rate of return of CPI plus 4.5%		6.1%	10.4%
Explanation of Variance			
The results over the past five years have exceeded expectations primarily due to better than expected returns in the Heritage Fund's equity, real estate and infrastructure assets. These results are expected to normalize over the long term.			
Prior Year's Results			
12.7% (5.4% above target)	11.7% (4.6% above target)	10.5% (3.5% above target)	11.0% (4.9% above target)
2013-14	2014-15	2015-16	2016-17
Trend			
The performance of the Heritage Fund has been higher than expected for a number of years. It is anticipated that returns will normalize over time.			

- Alberta invests in a number of saving vehicles, including the Heritage Fund and various endowments and other funds. The Alberta Investment Management Corporation (AIMCo) provides investment management services to the Province for these funds, as well as the recently established cash reserve. The returns on these investments provide alternative sources of income to the government and funding for specific programs.



- TBF continued to invest the Heritage Fund in a globally diversified portfolio consisting of public and private stocks and bonds, and in real estate and infrastructure investments (i.e., airports, public utilities and toll roads). All realized income is transferred to general revenue 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.

- TBF continued to manage the various endowment and other funds, including: the Alberta Enterprise Corporation, the Alberta Heritage Foundation for Medical Research Endowment Fund (AHFMR); the Alberta Heritage Scholarship Fund (AHSF); the Alberta Cancer Prevention Legacy Fund (ACPLF); and, the Alberta Heritage Science and Engineering Research Endowment Fund (AHSER). These funds help Albertans with specific purposes. For example, the AHSF provides scholarships to thousands of secondary and post-secondary students in Alberta, assisting students to pursue further academic and trades education. The AHSER provides income to the Ministry of Advanced Education, which in turn funds priority research efforts.



- During the year, AIMCo committed an additional $163.8 million in investments under the Alberta Growth Mandate, which brought the total committed to $362.1 million, up from the $198.3 million at March 31, 2017. The goals of the Alberta Growth Mandate investments are to support Alberta's growth, to create jobs, to develop subject matter expertise within Alberta, to build new infrastructure, to diversify Alberta's economy and to connect Alberta's companies to export markets. Although AIMCo is still fulfilling the goal of maximizing returns on investment, their investments made under the Alberta Growth Mandate continued to be in growth-oriented Alberta companies that support jobs and diversification in Alberta.

Performance Measure		2017-18 Target	2017-18 Actual
1.c Investment returns in excess of the benchmark through active management, for the endowment and pension funds, annualized over a five year period		1.0% (5-year average)	0.9% (5-year average)
Explanation of Variance			
Active management performance over the past five years was 0.9%, slightly below target. During 2017-18, returns from active management were 1.4%.			
Prior Year's Results			
1.2% 2013-14	0.5% 2014-15	1.3% 2015-16	0.9% 2016-17
Trend			
The value-add number can fluctuate from year to year, but over the long run it is expected to be around the 1.0% level.			

Optimization of the tax system and technologies

TBF is committed to improving the process of tax collections and filing. In the past year, new systems and tools were introduced to support tax administration and provide convenient services to taxpayers.

- TBF provided carbon levy remitters with a new online reassessment functionality and the ability to submit a notice of objection electronically. These improvements allow carbon levy remitters to perform all of their filing and reporting electronically and reduces time spent on manual processing.
- The ministry amended the corporate income tax return (AT1) and Schedule 3, in support of Bill 30, Investing in a *Diversified Alberta Economy Act* and the introduction of the Alberta Investors Tax Credit and the Capital Investment Tax Credit.
- TBF implemented electronic filing for the Health Cost Recovery report and Insurance Premiums Tax returns using the Tax and Revenue Client Self-service (TRACS). TRACS is convenient, secure and efficient. It allows taxpayers to file outside of regular business hours and reduces reporting errors. In addition, insurers can also use TRACS to submit supporting documents electronically and securely.
- TBF published specific targets and results related to tax collections on our public website. The results are on a fiscal year basis and will be updated to reflect results for the most recent fiscal year. These include Total Outstanding Corporate Income Tax (CIT) Debt Resolved in the Fiscal Year (target $185 million); Total CIT Debt Written-Off as a Percentage of CIT Revenue (target of less than 1 per cent); and Growth of Pursuable Alberta CIT Debt (target of less than 0 per cent). The publication of performance measures and targets related to corporate tax collections demonstrates our commitment to improving our processes and to public accountability.

Performance Measure		2017-18 Target	2017-18 Actual
1.d Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)		12:1	16.4:1
Explanation of Variance			
The ratios for 2013-14, 2014-15 and 2017-18 exceeded the target of 12:1. This is due to significant recoveries made by applying reassessments in Alberta similar to those used by the Canada Revenue Agency at the federal level.			
Prior Year's Results			
18:1[4]	27:1[4]	12.5:1[4]	14.8:1
2013-14	2014-15	2015-16	2016-17
Trend			
The value-add number can fluctuate from year to year, but over the long run it is expected to be around the 1.0% level.			

Note: 4. Most of these reassessments are currently under objection. Removing the impact of these reassessments results in revised ratios of 13:1 for 2013-14, 17.6:1 for 2014-15, and 14.6:1 for 2017-18. In addition, 2014-15 saw a substantial increase in the total dollar value of reassessments paralleled at the federal level. Removing the impact of these reassessments results in a further revised ratio for 2014-15 of 13:1.

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

Planned Key Strategies to support this outcome:

- Continuously scan the environment to monitor the current and emerging issues and trends that may have significant impact on Alberta's liquor, gaming, financial, securities, insurance and pensions sectors.
- Lead and implement changes to keep the policy and regulation of Alberta's liquor, gaming, financial, securities, insurance and pensions sectors relevant and based on best practices.
- 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.
- Support Alberta businesses by encouraging investments and improving access to capital for small and medium-sized enterprises.
- Promote responsible growth of gaming and liquor industries for the benefit of Albertans through regulatory innovation and continuous improvement supported by a culture of moderation.

What this means:

TBF influences the livelihood of Albertans and Alberta-based businesses by setting effective policies around the province's liquor, gaming, financial, securities, insurance and pensions sectors and regulating these industries. The goal is to ensure these policy and regulatory systems are fair, transparent and in the interest of Albertans.

Our responsibilities:

In pursuit of this outcome, TBF helps to reduce risks relating to financial products and services by monitoring and regulating private sector pension plans, the insurance industry, credit unions and loan and trust corporations in Alberta. The ministry also provides policy advice regarding securities regulation.

Results and Contributions from 2017-18:

The ministry continued to provide policy and regulatory advice for the liquor, gaming, financial, securities, insurance and pensions sectors. To promote future growth while protecting the public interest, TBF is committed to monitoring changes in the current environment , ensuring that policies and regulations of Alberta's liquor, gaming, financial, securities, insurance and pensions sectors are kept up to date, and encouraging the growth of Alberta's small businesses through increased access to capital.

Accessible capital for Albertans

TBF continued to support Alberta's economic growth and diversification through ATB Financial which is committed to promoting entrepreneurship and financing small- and medium-sized enterprises (SMEs) in Alberta.

- ATB Financial made more than 13,000 new loans to SMEs with a value of approximately $3.6 billion. This is an increase of almost one thousand loans over its previous fiscal year. ATB Financial's total loans outstanding to SMEs in Alberta are more than $8.5 billion.

Performance Measure		2017-18 Target	2017-18 Actual
2.a ATB Financial return on average risk weighted assets		0.53%	0.81%
Explanation of Variance			
The measure had experienced a rebound from prior years where the economic conditions adversely impacted ATB Financial's net income. Greater emphasis on proper pricing and a modest turnaround in the economy have contributed to the above target performance for 2017-18.			
Prior Year's Results			
1.10%	1.10%	0.33%	0.45%
2013-14	2014-15	2015-16	2016-17
Trend			
The expectation is for continued improvement as the economic conditions in the province improve.			

Financial, insurance and pension policy and regulations

As the financial services industry continues to undergo significant changes, TBF strives to ensure the financial, insurance and pension sectors remain relevant and fair, and are serving the interests of Albertans. Policy and regulatory oversight supported these areas to modernize and meet the growing needs of Albertans, and evolve with novel trends and issues as they arise.

- The ministry continued to ensure a high standard of supervision over financial institutions, loan and trust corporations, insurance companies and registered private sector pension plans, upholding and enhancing regulations to ensure the safety and soundness of financial sector/institutions in the province of Alberta, which thereby protects the interests of Albertans.
- During the year, TBF reviewed and renewed the Complaints Resolution Regulation. This regulation provides consumers with a complaint resolution process and requires insurers to have designated individuals responsible for dealing with consumer complaints to facilitate the timely, expeditious and efficient management of policyholders.

- TBF consulted with key stakeholders on seven insurance regulations that provide regulatory oversight of insurance companies and the insurance councils that license and discipline insurance professionals in Alberta. The feedback received will help inform decision-making on important activities such as consumer protection measures, administrative penalties, ensuring insurance companies are financially sound, and providing a way for government to recover regulation costs directly from industry. These regulations include:
  - Enforcement and Administration Regulation
  - Fair Practices Regulation
  - Replacement of Life Insurance Contracts Regulation
  - Provincial Companies Regulation
  - Reciprocal Insurance Exchange Regulation
  - Recovery of Administration Costs Regulation
  - Insurance Councils Regulation

  The ministry also consulted with key stakeholders on four automobile insurance regulations:
  - Automobile Accident Insurance Benefits Regulation
  - Automobile Insurance Premiums Regulation
  - Diagnostic and Treatment Protocols Regulation
  - Minor Injury Regulation
- In 2017-18, the ministry began to undertake a methodological review of the Automobile Insurance Rate Board. This review will allow for a review of the current state to determine whether any changes are warranted to improve processes.

Performance Measure		2017-18 Target	2017-18 Actual
2.b Employment pensions funded ratio[5]		102.00%	106.81%
Explanation of Variance			
Investment returns on pension funds have been strong and contributions for solvency deficiency payments have been increased by plan sponsors.			
Prior Year's Results			
105.85%	102.18%	104.65%	105.00%
2013-14	2014-15	2015-16	2016-17
Trend			
The going concern funded ratio for pension plans has increased over the past five years as investment returns on pension funds have been strong and contributions for solvency deficiency payments have been increased by plan sponsors. These have resulted in stronger going concern funded positions for pension plans. However, at the same time solvency funded ratios have decreased due to the low interest rate environment.			

Note: 5. Funded ratio indicates the degree to which assets cover liabilities. Plans must be at least 100 per cent funded on an ongoing basis (or contributions would have to be increased to eliminate any deficit).

- TBF led the changes to the Employment Pension Plans Regulation. The changes ensure the boards of Collectively Bargained Multi-Employer Pension (CBMEP) keep their plans sustainable and align rules of lump sum pension withdrawals with plan funding. With these regulatory changes, CBMEP boards ensure workers staying in their plans receive the retirement benefits that match their contribution.
- TBF participated in Canadian Council of Insurance Regulators Committees (CCIR) and working groups related to Insuretech, Property Insurance and Catastrophic loss events, and Fair Treatment of Consumers. CCIR members share information, meet quarterly to discuss emerging issues and trends, and work collaboratively to collect data on market conduct practices and the fair treatment of consumers from all insurers operating nationally.

Performance Measure		**2017-18 Target**	**2017-18 Actual**
2.c Alberta incorporated insurance companies rated as stable by the Superintendent of Insurance		100%	100%
Explanation of Variance			
No variance			
Prior Year's Results			
100% 2013-14	100% 2014-15	100% 2015-16	100% 2016-17
Trend			
The Office of the Superintendent of Insurance works closely with provincial insurers as well as the Alberta Insurance Council to monitor stability and to understand each regulated entity and the risk that may impact the solvency of each business in the future.			

Securities Regulatory System

TBF oversees the Alberta Securities Commission (ASC), which is the regulatory agency responsible for administering the province's securities laws. ASC 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 *Securities Act* was amended to ensure continued modernization of Alberta securities laws. These amendments included continued harmonization of various provisions and enhanced enforcement powers for self-regulator organizations like the Investment Industry Regulatory Organization of Canada (IIROC). Alberta continues to satisfy its commitment to ongoing reform of the Canadian securities regulatory system by updating and harmonizing its securities laws with other provincial and territorial governments annually.

Liquor and Gaming

With continuous changes in the gaming and liquor sectors in the past year, the ministry worked to promote modernization and responsible growth in these industries. By monitoring global changes and providing policy and regulatory advice, TBF was able to aid improvements and provide support to these growing industries in Alberta.

- AGLC updated and modernized a number of policies related to the liquor industry. The AGLC's liquor modernization efforts demonstrated its commitment to a regulatory environment that supports consumer demand, innovation and economic growth. The AGLC's approach to policy review meets the needs of a constantly-evolving liquor industry while ensuring public safety. Some of the policy modernization in the liquor sector that occurred in 2017-18 include:
  - Creating opportunities for spas, salons and barbershops to serve liquor.
  - Easing restrictions on patios for licensed restaurants and bars.
  - Creating a new taproom licence that allows Alberta's small liquor manufacturers to offer onsite food service, events and entertainment.
  - Allowing Alberta's small brewers to operate licensed restaurants or bars at a separate site.
  - Permitting the sale of Alberta craft beers and spirits at approved farmers' markets alongside Alberta's estate wines and meads.
- In December 2017, TBF announced a reduced markup for small manufacturers who produce spirits or refreshment beverages that are self-distributed in Alberta. The goal is to ensure small Alberta manufacturers are among the most competitive and innovative in Canada, and our markup policies continue to support a robust and diverse manufacturing sector. The reduced markup was developed to mirror the current reduced markup for estate wineries and meaderies.

Outcome Three: Excellence in government accountability and transparency

Planned Key Strategies to support this outcome:

- Provide timely, reliable and relevant accounting, budgeting and policy advice to ensure Alberta's finances are presented in a clear format that reflects public sector financial reporting standards.
- Report on government's performance and progress on priorities in a transparent and balanced manner.
- Ensure government programs and services meet the purposes intended and achieve efficiencies through internal audit and risk management.
- Develop policies and provide assistance, tools and advice to government departments and public agencies to support best practices in public agency governance, reporting, accountability and evaluation.
- Provide support and guidance in ensuring an effective and transparent process for recruitment and appointment of a diverse range of qualified candidates to public agencies.

What this means:

The Government of Alberta is accountable to Albertans. Maintaining financial integrity and information transparency enhances public confidence in the government. TBF sets policies and standards to promote responsible financial practices and conducts internal audits to ensure compliance, manage risks and safeguard public assets. Public agencies are integral to providing services and support to, and on behalf of, Albertans, and it is important that these ABCs are transparent, effective and accountable.

Our responsibilities:

In pursuit of this outcome, TBF supports the government's Accountability Framework, setting policies, standards and best practices related to business planning, budgeting, performance evaluation, and financial reporting and disclosure. The ministry oversees government's financial assets in accordance with legislation, policy, tolerable risk and best practices. Finally, TBF assists government with achieving program efficiencies by conducting internal government audits and publishing cross government statistics to be used in program delivery. The PAS leads government-wide initiatives to enhance the governance of Alberta's agencies.

Results and Contributions from 2017-18:

Strengthening the government's financial stewardship requires the ministry to develop policies and programs that reflect government's accountability and transparency, and maintain the integrated financial and control systems that promote excellence in operational efficiency and effectiveness.

Budgeting and fiscal planning

TBF is responsible for publishing the quarterly fiscal updates, the annual budget and the GoA Annual Report consistent with legislation and public sector accounting standards.

- In 2017-18, the ministry coordinated the development of a plan to balance the budget by 2023-24 by providing timely, reliable and relevant fiscal advice and recommendations.
- TBF continued to provide fiscal plan and estimates data in an open data format for *Budget 2018* and released an additional set of tables this year related to the Path to Balance that extended key fiscal, economic and energy data to 2023-24. To explain the Path to Balance to Albertans, a separate chapter was incorporated in the *Budget 2018* Fiscal Plan.

Financial reporting and disclosure

TBF facilitated the preparation of financial statements in accordance with new accounting standards. It was one of the major contributions of the ministry in achieving transparency in reporting on government's performance.

- Alberta releases the financial statements before June 30 of each year to meet requirements laid out in legislation - a quicker turnaround than any other province. The timely, reliable and relevant presentation of financial information has earned Alberta an A+ rating, for the third consecutive year, in the fiscal accountability study by the C.D. Howe Institute *(The Numbers Game: Rating the Fiscal Accountability of Canada's Senior Governments, 2018)*.
- TBF provided guidance to ministries on newly enhanced related party disclosures, contingent assets, inter-entity transactions and contractual rights in order to remain compliant with public sector accounting standards. TBF also issued guidance in regard to financial management policies, ensuring compliance with legislative and regulatory requirements. These activities ensured financial reporting was compliant with public sector accounting standards, and led to unqualified audit opinions across all department/ministry/agency financial statements, as well as the GoA consolidated financial statements.
- TBF developed accounting policies in consideration of new accounting standards and facilitated workshops for departments. This includes guidance on the new Key Management Personnel declaration process. Advice and guidance provided to ministries in regard to accounting policies and standards ensures timely and accurate financial reporting.
- Over the past year, TBF prepared various public disclosures, all within legislated deadlines, in support of government's commitment to excellence in accountability and transparency, including:
    - Blue Book – payments made for supplies or services purchased by departments from the General Revenue Fund.
    - Selected Payments to MLAs – payments to MLAs such as remuneration, benefits, allowances, travel expenses, and pension payments to former MLAs.
    - Consolidated financial statements.

Performance Measure		2016-17 Target	2016-17 Actual
3.a Financial reporting: ● Auditor General opinion on Government of Alberta Consolidated Financial Statements[6]		Unqualified	Unqualified
Explanation of Variance			
Target met.			
Prior Year's Results			
Unqualified 2012-13	Unqualified 2013-14	Unqualified 2014-15	Unqualified 2015-16
Trend			
Consistently met the highest standard of an unqualified opinion from the Office of Audior General (OAG).			

Note: 6. Obtaining an unqualified report from OAG signified that financial information is fairly stated in accordance with public sector accounting standards providing confidence in the quality of information concerning the province's financial performance.

Operational efficiency and effectiveness

Over the past year, TBF worked to address OAG recommendations and assisted government to sustain operational expenses by improving operational efficiency.

- The new ERP to be implemented by government presents a significant opportunity to further support accountability, transparency and efficiency. The ministry collaborated with Service Alberta and contributed to the preparation of ERP implementation, which included the issuance of a Request for Proposals in 2017-18.
- Continuous improvement continues to be a priority for TBF. In 2017-18, the ministry reviewed the government's finance service delivery model that was part of the preparation for the implementation of the cross-government ERP system. The review and recommendations will ensure that the financial service delivery model continues to improve operational efficiency while maintaining a high level of effectiveness.
- TBF continued to support government's modernization of the way the APS delivers corporate services. This included improving governance, organizational structures, business processes and technology. The ERP and Financial Transformation initiatives that were started in 2017-18 will create opportunities to modernize how finance delivers and supports strategic decision making to help support informed and effective policy and program decisions.

Business planning and measuring performance

TBF worked closely with planning and reporting staff across government on a number of activities to support best practices in both business planning and performance reporting.

- The ministry reviewed the 2017-20 Ministry Annual Report Standards to ensure the reporting principles are considered by ministries to prepare for their annual reports. Updates were made to include additional guidance and direction on how to best prepare balanced and complete results analysis. More details and examples of best practises on performance reporting and variance analysis were also included in the updated 2017-20 Ministry Annual Report Standards.

- During the year, TBF conducted a government-wide review of ministry annual reports in order to assess their compliance with the Ministry Annual Report Standards. The review found that the overall quality of the ministry annual reports have been improved compared to previous years.

Support public agency best practices

- PAS has led work on a three-phased review of ABCs to ensure they are effective, efficient, relevant, and providing value to Albertans. As a result, over three years (from 2016-17 to 2018-19), Albertans are saving $33 million through public agency amalgamations and dissolutions and significant administrative efficiencies.
- In Fall 2017, the second phase of the ABC review, which focused on 140 agencies not under the Alberta Public Agencies Governance Act (APAGA), was completed. The agencies reviewed included professional, regulatory associations and advisory bodies. Although most non-APAGA agencies continue to play an important role in serving Albertans, Phase 2 resulted in the dissolution or amalgamation of 10 ABCs.
- In early 2017, compensation was cut for the highest-paid agency executives, which included the elimination of bonuses and perks, like golf club memberships and housing allowances, saving government and agencies an ongoing $16 million per year once fully implemented. Additionally, the Post Secondary Institutions' Compensation Regulation will come into effect for 2018/19 (led by Advanced Education) which will save $4 to $5.2 million a year.
- In 2017-18 PAS continued implementing the new compensation framework for the 23 agencies with executive positions that are subject to the compensation regulation under the *Reform of Agencies, Boards and Commissions Compensation Act* (RABCCA), including assisting impacted agencies in complying with the Act and Regulation.
- The Salary Restraint Regulation, under RABCCA, supported measures to reduce government operating costs by maintaining non-bargaining staff compensation at current levels to September 30, 2019, for agencies subject to the APAGA.
- On December 15, 2017, the amendments to the *Conflicts of Interest Act* were proclaimed, creating conflicts of interest requirements for all public agencies subject to APAGA and their subsidiaries. Under this Act, agency board members and employees are now subject to the same types of rules and requirements as the public service and elected officials. This includes requirements for impartial conduct, disclosure of real and apparent conflicts of interest, and restrictions or limitations on acting in self-interest, furthering private interest, accepting gifts, and concurrent employment or other offices.
- The Act's amendments also provide authority to identify Designated Senior Officials (DSOs) through an Order in Council, which will occur in early 2018-19. DSOs will be subject to a series of additional obligations and restrictions, including disclosure to the Ethics Commissioner and restrictions on holding publicly traded securities and post-employment.

Ensure a diverse range of qualified candidates to public agencies

- PAS continued to support departments and agencies in ensuring an unbiased, skills-based, and transparent process for recruitment to public agency boards. Today, women hold 50 per cent of board positions.
- In Fall 2017, a series of videos was launched to celebrate the one-year anniversary of government's campaign to promote diverse agency boards and showcase new board members in an effort to encourage applications from a wider range of Albertans.

Outcome Four:
A strong and inclusive public service working together for Albertans

Planned Key Strategies to support this outcome:

- Enhance policies and programs to ensure a diverse and inclusive workforce.
- Implement a government-wide strategy to improve employee engagement across the Alberta Public Service.
- Modernize processes and structures to strengthen the human resource system supporting the Alberta Public Service.

What this means:

The Public Service Commission (PSC) is responsible for establishing policies and programs to ensure Alberta has a professional, non-partisan, diverse and inclusive public service that proudly serves Albertans. This is achieved through providing expert advice, strategic leadership and stewardship as well as developing and delivering innovative supports and services to Alberta Public Service employees.

Our responsibilities:

The PSC is responsible for developing an experienced, competent, engaged and professional public service. This begins with effective human resource advisors and strategic business partners; an integrated, coordinated, and consistent approach to talent management; and a modern and responsive human resource system. The PSC administers *Alberta's Public Service Act* and Code of Conduct and Ethics for the Public Service of Alberta. It represents the Government of Alberta as the Employer in collective bargaining and other labour relations matters, and provides advice to senior executives and elected officials on human resource issues. It is also responsible for the Public Agency Secretariat, which leads government-wide initiatives to enhance the governance of Alberta's agencies.

Results and Contributions from 2017-18:

The PSC continued to implement strategic priorities with a focus on supporting a diverse and engaged workforce, as well as strengthening the foundations of the human resource system.

Ensure a diverse and inclusive workforce

- A Diversity and Inclusion Policy for the APS was announced in October 2017.
- A cross-department committee was put in place with senior executives to support implementation of the Diversity and Inclusion Policy and provide strategic direction on how to advance diversity and inclusion across the APS.
- A grassroots committee was established with employees from all levels across the APS focused on continuing to enhance an inclusive culture through building of employee support networks and engagement.
- Unconscious bias training was launched in partnership with Status of Women.
- Indigenous Training content and delivery methods for public servants were developed with APS partners including Indigenous Relations, Indigenous communities and scholars, and public agencies.

Labour Relations

- Filed the first Essential Services Agreement between the GoA and the Alberta Union of Provincial Employees (AUPE) with the Labour Relations Board.

Improve employee engagement across the Alberta Public Service

- In 2017-18, implementation of ENGAGE: Our Alberta Public Service People Strategy was well underway through cross-government initiatives, Deputy Minister Committees, and department-specific initiatives.
- The ENGAGE people plan was developed through direct feedback from more than 5,000 employees, and three quarters of management employees attended optional sessions to increase engagement in Spring 2017.
- In October 2017, a new recognition program was launched. It provides a variety of meaningful and cost-effective ways for public service membership to recognize one another.
- A 2017 employee engagement pulse survey was undertaken. Results indicated that employees are receiving meaningful recognition, have confidence in senior leadership and feel information is flowing better.
- Programs and initiatives will continue to build on successes and expand to focus on innovation, career growth and support at work.
- The next comprehensive APS employee survey is planned for June 2018, and will be expanded to include questions to gather a better understanding of our workforce.

Modernize processes and structures to strengthen the human resource system

- One Government. One Employer. One HR., an HR system transformation strategy, was developed through cross-jurisdictional research, historical learnings, and extensive engagement within the APS and the Human Resource Services community with the following measurable outcomes:
  - promote strong leadership and governance;
  - deliver efficient and consistent services;
  - support an agile and engaged workforce; and
  - leverage technology.
- On April 1, 2018, all human resources services were consolidated under the PSC. Implementation will continue throughout 2018 and 2019.
- The Senior Manager Development and Succession process was officially launched across the APS on May 30, 2017. This is part of the One Government approach to development and succession, which was initiated by the launch of the Executive Development and Succession process in Fall 2015.

Performance Measure		2017-18 Target	2017-18 Actual
4.a Alberta Public Service Employee Engagement Index		65%	N/A
Explanation of Variance			
Beginning in 2015-16, a biennial survey schedule was adopted with targets and results available every other year. The survey was last conducted in 2015-16. While the survey was not conducted in 2017-18, the next result will be available after the scheduled survey in June 2018.			
Prior Year's Results			
59%	N/A	60%	N/A[7]
2013-14	2014-15	2015-16	2016-17
Trend			
The last result in 2015-16 at 60 per cent was a slight increase over the previous result in 2013-14 at 59 per cent.			

Note: 7. Beginning in 2015-16, a biennial survey schedule was adopted with targets and results available every other year.

Performance Indicator	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual
4.a Employee engagement index inter-jurisdictional average[8]	66%	62%	59%	63%	64%
Trend					
The inter-jurisdictional employee engagement index has been stable since 2013-14, Alberta's results are consistent with the inter-jurisdictional trend and average.					

Note: 8. Until 2012-13, the Employee Engagement Index was reported based on a six-question model. A seventh question was added to the survey in 2013, and reporting has transitioned towards the seven-question model ever since. The method of averaging inter-jurisdictional results was updated in 2016-17, resulting in a small change in the 2015-16 actual result. The 2017-18 results for indicator 4.a will not be available until fall 2018.

Performance Measures Methodology

Sustainable operating spending growth (operating spending relative to the rate of population growth plus CPI) (Measure 1.a)

Methodology

1. Growth in operating expense is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.

2. Population growth is calculated by taking the annual change in population at the midpoint of the fiscal year (October 1).

3. Inflation is the year over year growth in the average of the Alberta Consumer Price Index over the fiscal year (April to March).

Source

Growth in operating expense, population and inflation is calculated by Alberta Treasury Board and Finance.

The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5% (Measure 1.b)

Methodology

The performance measurement system employed by AIMCo calculates a total return of the Heritage Fund.

Consumer Price Index is a measure of price movements of baskets of selected goods and services between two different points in time. CPI is calculated by Statistics Canada.

A comparison is made between annualized five-year market value rate of return of the Heritage Fund and annualized five-year CPI plus 5.5 per cent.

Source

The Heritage Fund return is calculated by the Investment Performance & Analytics group within AIMCo's Investment Operations team using SS&C Sylvan as the official performance system.

Market Index data is sourced by the Data Management group within AIMCo's Investment Operations team. Market Index and Benchmark returns are calculated by the Investment Performance & Analytics team using SS&C Sylvan.

SS&C– Sylvan: On a daily basis, daily data, through our overnight process, is automatically imported into Sylvan for calculation. When performance calculations are finished, portfolios, benchmark and attribution data are reviewed by the team through various in-house diagnostics tools to ensure accuracy. Annualized data is calculated within Sylvan as well.

Investment returns in excess of the benchmark through active management, for the endowment and pension funds, annualized over a five year period (Measure 1.c)

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 Department 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 & Analytics group within AIMCo's Investment Operations team using SS&C Sylvan as the official performance system.

Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency) (Measure 1.d)

Methodology

The measure is calculated by dividing the additional revenue obtained through administrative effort by Tax and Revenue Administration's operating budget.

Source

Data comprises a summary of revenue obtained through the revision of returns and claims, the collection of overdue accounts and recoveries due to audit activity. Data is generated through existing ORACLE and IMAGIS system reports and ad hoc reporting created for the purpose. Administrative costs are obtained through the Government of Alberta IMAGIS expense tracking system.

ATB Financial return on average risk weighted assets (Measure 2.a)

Methodology

Net Income / Average Risk Weighted Assets

Source

Net income - as per annual report.

Average Risk Weighted Assets - per internal reporting systems.

Employment pensions funded ratio (Measure 2.b)

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 onto our internal database.

Alberta incorporated insurance companies rated as stable by the Superintendent of Insurance (Measure 2.c)

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%, 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.

Financial reporting:
• Auditor General opinion on Government of Alberta Consolidated Financial Statements (Measure 3.a)

Methodology

The actual opinion is completed by the Auditor General after the office completes their audit work on the consolidated financial statements for each respective year end.

Source

Independent auditor's report issued by the Auditor General for the government's consolidated financial statements.

Alberta Public Service Employee Engagement Index (Measure 4.a)

Methodology

The Employee Engagement Index is comprised of seven outcome statements where survey respondents choose on a scale of “strongly agree” to “strongly disagree” for each statement. The statements are as follows:

- Overall, I am satisfied with my work as an APS employee
- Overall, I feel valued as an APS employee
- I am satisfied with my ministry/department
- I am inspired to give my very best
- I would recommend the APS as a great place to work
- I would prefer to stay with the APS, even if offered a similar job elsewhere
- I am proud to tell people I work for the APS

The results are the percent of respondents/employees who “agree” or “strongly agree” with each statement. Those percentages are then averaged to generate the overall index.

Source

2016 Employee Engagement Survey (Spring 2016).

Employee engagement index inter-jurisdictional average (Indicator 4.a)

Methodology

The Inter-jurisdictional employee engagement index is calculated as an average of scores collected in each participating jurisdiction. For the purpose of calculating the Inter-jurisdictional average, each jurisdiction is accorded equal weight. For biennial surveys, the results of each jurisdiction are used to calculate the average over two years.

The Employee Engagement Inter-jurisdictional Index is comprised of seven statements where survey respondents choose on a scale of “strongly agree” to “strongly disagree” for each statement. The statements are as follows:

- Overall, I am satisfied with my work as a [insert organization] employee
- Overall, I feel valued as a [insert organization] employee
- I am satisfied with my ministry/department
- I am inspired to give my very best
- I would recommend the [insert organization] as a great place to work
- I would prefer to stay with the [insert organization], even if offered a similar job elsewhere
- I am proud to tell people I work for the [insert organization]

The results are the percent of respondents/employees who “agree” or “strongly agree” with each statement. Those percentages are then averaged to generate the overall index.

Source

Interjurisdictional Working Groups – Supplemental Report 2017.

Financial Information

Financial Statements of the Ministry of Treasury Board and Finance and Other Organizations

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Ministry of Treasury Board and Finance

Consolidated Financial Statements

Year Ended March 31, 2018

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Independent Auditor's Report

Auditor General OF ALBERTA

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Treasury Board and Finance, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Treasury Board and Finance as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Consolidated Statement of Operations

Year ended March 31, 2018

($ millions)

	2018		2017
	Budget	**Actual**	**Actual**
			(Restated Note 5)
Revenues (Schedule 1)			
Internal Government Transfers	$ 4	$ -	$ -
Income taxes	15,095	14,223	14,532
Other taxes	4,131	4,019	3,179
Transfers from Government of Canada	1,618	1,635	1,563
Net investment income	1,904	2,827	3,356
Net income from government business enterprises	2,437	2,581	2,467
Premiums, fees and licences	131	195	151
Other revenue	405	475	378
	25,725	25,955	25,626
Expenses - Directly Incurred (Schedule 2)			
Ministry Support Services [(a)]	26	24	26
Budget Development and Reporting	5	5	5
Fiscal Planning and Economic Analysis	5	5	5
Investment, Treasury and Risk Management	687	749	667
Office of the Controller	3	2	2
Corporate Internal Audit Services	4	3	3
Tax and Revenue Management	40	46	51
Financial Sector Regulation and Policy	193	181	175
Provincial Bargaining Coordination Office	2	2	-
Public Service Commission	26	26	24
Public Agency Secretariat	3	-	-
Communications and Public Engagement [(a)]	-	38	38
Gaming	43	41	43
Climate Leadership Plan - Consumer Rebates	410	301	152
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	234	221	206
Teachers' pre-1992 pension liability funding	473	474	469
Pension recovery (Schedule 13)	(129)	(502)	(434)
Corporate income tax allowance adjustment	15	14	(142)
Debt servicing - school construction debentures	1	1	2
Debt servicing - Alberta Capital Finance Authority	189	258	189
Debt servicing - general government	1,077	1,030	699
	3,307	2,920	2,180
Annual Surplus	$ 22,418	$ 23,035	$ 23,446

(a) Budget shown is original budget prior to restructuring which transferred $40 million to the Ministry for Communications and Public Engagement.

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

Financial Information

Consolidated Statement of Financial Position

As at March 31, 2018

	($ millions)	
	2018	2017 (Restated Note 5)
Financial Assets		
Cash and cash equivalents (Schedule 3)	$ 8,722	$ 6,355
Accrued interest and accounts receivable (Schedule 4)	2,624	2,584
Portfolio investments (Schedule 5)	20,681	20,777
Equity in government business enterprises (Schedule 6)	3,618	3,456
Loans and advances (Schedule 7)	3,905	3,144
Loans of Alberta Capital Finance Authority (Schedule 8)	15,662	15,469
	55,212	51,785
Liabilities		
Accrued interest and accounts payable (Schedule 10)	2,440	2,032
Debt (Schedule 12)	64,715	50,079
Pension liability (Schedule 13)	8,715	9,217
Other accrued liabilities (Schedule 14)	121	107
	75,991	61,435
Net Debt	(20,779)	(9,650)
Non-Financial Assets		
Tangible capital assets (Schedule 9)	130	139
Net Liabilities before spent deferred capital contributions	(20,649)	(9,511)
Spent deferred capital contributions (Schedule 11)	44	48
Net Liabilities	$ (20,693)	$ (9,559)
(Net Liabilities) / Net Assets		
(Net Liabilities) / Net assets at beginning of year	$ (9,559)	$ 2,158
Adjustment to opening net assets (Note 12)	-	56
Annual Surplus	23,035	23,446
Net financing provided for general revenues (Note 3b)	(34,031)	(35,101)
	(20,555)	(9,441)
Change in accumulated unrealized losses (Schedule 6)	(138)	(118)
Net liabilities at end of year	$ (20,693)	$ (9,559)

Contractual obligations and contingent liabilities (Notes 7 and 8)

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

Consolidated Statement of Change in Net Debt
Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual (Restated Note 5)
	($ millions)		
Annual Surplus	$ 22,418	$ 23,035	$ 23,446
Acquisition of tangible capital assets	(22)	(16)	(15)
Amortization of tangible capital assets (Schedule 2)	25	23	23
Change in accumulated unrealized losses		(138)	(118)
Net financing provided for general revenues		(34,033)	(35,101)
Adjustment (Note 12)		-	56
Change in net financial assets/net debt		$ (11,129)	$ (11,709)
(Net debt) Net financial assets at beginning of year		(9,650)	2,059
Net debt at end of year		$ (20,779)	$ (9,650)

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

Consolidated Statement of Cash Flows

Year ended March 31, 2018

	($ millions)	
	2018	**2017**
		(Restated Note 5)
Operating transactions		
Annual surplus	$ 23,035	$ 23,446
Non-cash items included in net operating results		
Income from government business entities (Schedule 6)	(2,581)	(2,467)
Pension recovery	(502)	(434)
Amortization, gains and losses on investments and debt, net	(316)	(742)
Corporate income tax allowance adjustment	14	(142)
Amortization of tangible capital assets (Schedule 2)	25	23
Non-Cash grant	4	-
Remittances from government business entities	2,245	2,280
	21,924	21,964
Increase in accounts and accrued interest receivable	(42)	(215)
Increase / (Decrease) in accounts and accrued interest payable	420	(218)
Other	15	9
Cash provided by operating activities	22,317	21,540
Capital transactions		
Purchase of tangible capital assets	(16)	(15)
Cash applied to capital activities	(16)	(15)
Investing transactions		
Proceeds from disposals, repayments and redemptions of portfolio investments	4,804	11,291
Portfolio investments purchased	(4,343)	(8,085)
Repayments of loans and advances	5,021	2,673
Loans and advances made	(5,935)	(3,226)
Cash (applied to) provided by investing activities	(453)	2,653
Financing transactions		
Debt issues	47,147	40,601
Debt retirement	(32,591)	(25,523)
Grants for school construction debenture principal repayment	(6)	(9)
Net financing provided for general revenues	(34,031)	(35,101)
Cash applied to financing activities	(19,481)	(20,032)
Increase in cash and cash equivalents	2,367	4,146
Cash and cash equivalents at beginning of year	6,355	2,209
Cash and cash equivalents at end of year	$ 8,722	$ 6,355

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

Notes to the Consolidated Financial Statements

March 31, 2018

NOTE 1 AUTHORITY

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

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

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

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

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

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

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

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

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

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

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

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

Alberta Gaming and Liquor Commission (AGLC)
Gaming and Liquor Act, Chapter G-1, Revised Statutes of Alberta 2000

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

Alberta Lottery Fund
Gaming and Liquor Act, Chapter G-1, Revised Statutes of Alberta 2000

NOTE 1 AUTHORITY CONTINUED

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

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

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

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

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

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

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

NOTE 2 PURPOSE

The Ministry's focus is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a strong and inclusive public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury and risk management;
- government accounting standards; financial management policies; performance planning and reporting;
- tax policy and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation;
- Public Agency Secretariat (PAS) collaborates with departments and public agencies to promote a consistent approach to public agency governance, recruitment and compensation;
- Communications and Public Engagement; and
- strategic leadership of human resources management for the Alberta Public Service.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) METHOD OF CONSOLIDATION

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

The government business enterprises of AGLC, ATB Financial, and Credit Union Deposit Guarantee Corporation, which report under International Financial Reporting Standards (IFRS) are consolidated on a modified equity basis. Under the modified equity method, the accounting policies of government business enterprises are not adjusted to conform to those of the government sector entities. Inter-sector revenue and expense transactions and related asset and liability balances are not eliminated.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

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

c) CHANGE IN ACCOUNTING POLICY

The ministry has prospectively adopted the following standards from April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights where applicable which are reflected in Note 3 and Schedule 15.

d) FUTURE ACCOUNTING CHANGES

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/ or liabilities, together with related program or operating responsibilities.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

- **PS 3280 Asset Retirement Obligations (effective April 1, 2021)**

Effective April 1, 2021, this standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

- **PS 3450 Financial Instruments (effective April 1, 2021)**

Adoption of this standard requires corresponding adoption of: PS 2601 Foreign Currency Translation; PS 1201 Financial Statement Presentation; and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments.

Management is currently assessing the impact of these standards on the financial statements.

e) **BASIS OF FINANCIAL REPORTING**

Revenues

All revenues are reported using the accrual method of accounting. Cash received for which goods or services have not been provided by year end is recognized as unearned revenue.

Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. A receivable is established for tax assessments that are outstanding. Revenue and tax receivables will be adjusted in the year in which any additional information becomes available from resulting audits, appeals, and court decisions. Corporate income tax refunds payable are accrued based primarily on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The adjustment to the allowance is recorded as an expense. The adjustment may increase or decrease the allowance as tax receivables are revalued in subsequent years based on resulting audits, appeals, and court decisions.

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

Direct Taxes, such as fuel, carbon levy and tobacco are recorded during the period in which the taxable event occurs and when authorized by legislation.

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

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delivered under the Alberta/Federal Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

The Alberta Climate Leadership Adjustment Rebate is 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 first rebate payments were made January 1, 2017, to coincide with the introduction of Alberta's Carbon Levy, and are reported in the period in which the payments are made to Albertans.

Transfers from Government of Canada

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

Expenses

Expenses represent the cost of resources consumed during the year on Ministry operations as well as pension liability funding, pension recovery, tax credits, corporate income tax provision for doubtful accounts, and debt servicing costs. Expenses include amortization of tangible capital assets.

Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

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

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

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other ministries are not reflected in the consolidated statement of operations. Schedule 15 discloses information on these related party transactions.

Derivative Contracts

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

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

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

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

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 business. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, taxpayers, employees and other individuals as well as cash and cash equivalents, portfolio investments, and equity in government business enterprises.

Cash and Cash Equivalents

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

Accounts Receivable and Accrued Interest Receivable

Accounts receivable and Accrued Interest Receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Portfolio Investments

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

Loans and advances

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

Liabilities

Liabilities are recognized 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. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts.

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

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

The value of the pension liability and changes therein during the year are based on an actuarial extrapolation of the most recent actuarial valuation. This valuation technique uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees. Where the Province has a liability only for pre-1992 pension obligations experience gains or losses are recognized in the year incurred.

Spent deferred capital contributions are a liability which are excluded from net financial assets.

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 government 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 of the ministry are limited to tangible capital assets.

Tangible Capital Assets

Assets acquired by right are not included. Tangible capital assets of the Ministry are recognized at historical cost and amortized on a straight line basis over the estimated useful lives of the assets (see Schedule 9). The threshold for capitalizing new systems development is $250,000 and the threshold for major enhancements is $100,000 and the threshold for all other capital assets is $5,000. Amortization is only charged if the tangible capital asset is put into service.

(Net Debt) / Net Financial Assets

(Net debt) / Net financial assets represents the difference between the carrying value of assets held by the Ministry and its liabilities.

Foreign Currency

Unhedged monetary items denominated in a foreign currency are translated at the year end rate of exchange. Hedged assets and liabilities denominated in foreign currencies are translated at the rate of exchange established by the terms of the hedging agreement.

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

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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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

Measurement Uncertainty

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

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

Personal income tax revenue, totaling $10,775 million (2017: $10,763 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of primary household income growth used in determining personal income tax for the current fiscal year is 3.9% for 2017 calendar year (-4.5% for 2016) and 4.5% for 2018 calendar year (1.8% for 2017). Based on historical data, there is an uncertainty of plus or minus $518 million (2017: $510 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $3,360 million (2017: $3,692 million), see Schedule 1, and corporate income tax refunds payable of $698 million (2017: $626 million), see Schedule 10, are subject to measurement uncertainty due primarily to the timing differences between tax installments collected and future tax assessments, along with the estimate for the corporate income tax allowance.

The pension liability of $8,715 million (2017: $9,217 million), Schedule 13, is subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

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

NOTE 4 VALUATION OF PORTFOLIO INVESTMENTS AT FAIR VALUE

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

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

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

- Mortgages and certain non-public provincial debentures are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- The fair value of alternative investments including absolute return strategy investments, investments in limited partnerships, private investment funds, private equities and securities with limited marketability is estimated using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.
- Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.
- As quoted market prices are not readily available for private and alternative investments and private real estate, estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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

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

NOTE 5 GOVERNMENT REORGANIZATIONS

Effective September 1, 2017, Communications and Public Engagement branches were transferred from each department to the Department of Treasury Board and Finance Comparatives for 2017 have been restated as if the current organization structure had always been the same. The opening Net Liabilities and Net Debt as at April 1, 2016 have been restated.

The Net Assets (Liabilities) on April 1, 2016 are made up as follows:

	($ thousands)
Net Assets as previously reported	$ 2,160,798
Transfer from Department of Agriculture & Forestry	(116)
Transfer from Department of Culture & Tourisim	(127)
Transfer from Department of Education	(133)
Transfer from Department of Environment and Parks	(284)
Transfer from Department of Executive Council	(612)
Transfer from Department of Community and Social Services	(165)
Transfer from Department of Economic Development and Trade	(75)
Transfer from Department of Service Alberta	(52)
Transfer from Department of Labour	(136)
Transfer from Department of Status of Women	(40)
Transfer from Department of Children's Services	(34)
Transfer from Department of Advanced Education	(145)
Transfer from Department of Energy	(114)
Transfer from Department of Justice & Solicitor General	(97)
Transfer from Department of Municipal Affairs	(105)
Transfer from Department of Transportation	(80)
Transfer from Department of Seniors and Housing	(52)
Transfer from Fines Distribution trust (Ministry of Justice and Solicitor General)	(6)
Transfer from Department of Indigenous Relations	(87)
Transfer from Department of Infrastructure	(122)
Total Transfers	**(2,582)**
Net Assets at April 1, 2016	$ 2,158,216

Net Financial Assets on April 1, 2016 is made up as follows:

Net Financial Assets as previously reported	$ 2,061,983
Total transfer from the above Departments	**(2,582)**
Net Assets at April 1, 2016	$ 2,059,401

NOTE 6 FINANCIAL RISK MANAGEMENT

a) DEBT MANAGEMENT

The objective of the Ministry's debt management activity is to raise funding for the Province and its agencies in a cost-effective manner, while ensuring that borrowed funds can be serviced and repaid as scheduled.

The Ministry's debt management goals include: ensuring sufficient liquidity to meet the Province's financial commitments and withstand market disruptions, providing stable and low-cost funding for the Ministry, maintaining access to both domestic and global debt markets to provide financing and liquidity for the Ministry and strategically structuring the debt portfolio to allow for prudent management of maturities and refinancing.

Debt of provincial corporations and regulated funds is managed separately in relation to their stated requirements and respective authorities.

In order to achieve this objective, the Ministry manages the following risks within approved policy guidelines:

- Refinancing risk is the risk that debt will have to be rolled over at an unusually high cost, or in extreme cases, cannot be rolled over at all.
- Interest rate exposure risk is the risk that debt servicing costs will increase as interest rates increase due to changes in floating interest rate debt, financing and refinancing of debt at long term interest rates.
- Foreign currency risk is the risk of increased debt servicing costs or larger refinancing requirements due to unfavourable movements in foreign currency markets.
- Liquidity risk is the risk that the Province will have insufficient cash to meet its financial commitments. This refers to a disruption in which funds cannot be raised in capital markets due to external forces.
- Credit risk is the risk of loss on invested funds in which an issuer or investment counterparty does not meet or defaults on its obligations.
- Operational risk is the risk that results from internal human and systems errors or inadequate processes and controls.
- Settlement risk is the risk that arises from non-simultaneous payment exchanges (late or missed payments).

b) ASSET MANAGEMENT

Cash and cash equivalents are used to repay debt as it matures, to provide funding for the capital and fiscal plans, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters and other unforeseen cash requirements.

The portfolio investments that the Ministry holds are exposed to credit risk and market risk. Market risk is comprised of currency exchange risk, interest rate risk and price risk. In order to earn the best possible return at an acceptable level of risk, the Ministry has established policies for the asset mix of its investment portfolios.

The Ministry reduces its investment risk by holding many different types of assets, investing in securities from various governments and companies in different industries and countries, having quality constraints on fixed income instruments, and restricting amounts exposed to countries designated as emerging markets.

A large percentage of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund. The target policy asset mix is: interest-bearing securities 15-45%, equities 35-70%, and inflation sensitive and alternative investments 15-40%.

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

NOTE 7 CONTRACTUAL OBLIGATIONS

Obligations to outside organizations in respect of contracts entered into before March 31, 2018 amounted to $541 million (2017: $407 million). These amounts include obligations under operating leases which expire on various dates.

The aggregate amounts payable for the unexpired terms of these contracts and leases are as follows:

	($ millions)
2018-19	$ 103
2019-20	77
2020-21	67
2021-22	61
2022-23	56
Thereafter	177
	$ 541

In addition, the Ministry has outstanding loan commitments of $67 million (2017: $210 million). The contracts for government business enterprises are disclosed in Schedule 6.

NOTE 8 CONTINGENT LIABILITIES

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

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

a) GUARANTEES AND INDEMNITIES

The Province of Alberta ensures the debt of ACFA of $1,535 million (2017: $2,234 million) and Alberta Social Housing Corporation of $55 million (2017: $59 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province of Alberta, through the Department, will ensure that this obligation of the Corporation is carried out. At March 31, 2018, credit unions in Alberta held deposits totaling $21,490 million (2017: $21,591 million). Substantial assets are available from credit unions to safeguard the Department from the risk of loss from its potential obligation under the Act.

The Province guarantees the principal and interest of the $18 million, borrowed by the Board of Governors of Red Deer College from the Alberta Capital Finance Authority for the construction of the Student Residences at Red Deer College.

The Province of Alberta ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee of $42 million (2017: $43 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2018, ATB Financial had deposits totalling $37,340 million (2017: $36,820 million).

The Province, through the Ministry and Agriculture and Forestry, provide guarantees of $71 million (2017: $64 million) to feeder associations.

The Ministry, through the Canadian Securities Administrators National Systems operations management and governance agreement, have committed to pay 25 per cent of any shortfall from approved system operating costs that exceed revenues should there not be an accumulated operating surplus available to offset. As at March 31, 2018 the accumulated operating surplus is $162.9 million (2017: $151.7 million).

Payments under guarantees are a statutory charge on the Ministry.

b) LEGAL ACTIONS

At March 31, 2018, the Ministry was involved in various legal actions through the consolidated entities. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, at March 31, 2018, the Department is jointly or separately named as a defendant in one claim (2017: nil), the outcome of which is likely and has no amount specified (2017: nil). The Department has also been named in ten (2017: twelve) legal claims, the outcome of which is not determinable. Of these ten claims, four (2017: nine) have specified amounts totaling approximately $36 million (2017: $87 million) and six (2017: three) claims have no specified amount. Included in the total claims, five claims are covered in whole by Alberta Risk Management Fund. Of these five claims (2017: three), two (2017: two) of the claims total $32 million (2017: $32 million) and three (2017: one) claims have no specified amounts.

The legal actions for the government business enterprises are disclosed in Schedule 6.

In addition, at March 31, 2018, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 9 DERIVATIVE CONTRACTS

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

NOTE 9 DERIVATIVE CONTRACTS CONTINUED

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

	($ millions)	
	2018	2017
	Fair Value [a][b][c]	Fair Value
Interest rate derivatives [d]	$ (640)	$ (808)
Equity replication derivatives [e]	(65)	31
Foreign currency derivatives [f]	(118)	(25)
Credit risk derivatives [g]	4	8
Net fair value of derivative contracts	(819)	(794)

(a) Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Ministry monitors counterparty risk exposure and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains.

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

(c) Includes ACFA interest rate derivatives with a net fair value of $(433) million (2017: $(667) million) of which (0.15)% will mature in under one year, 7.10% in one to three years and 93.05% in over three years.

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 have been signed with counterparties which may require ACFA or the counterparty to provide collateral (cash and non-cash) based on established thresholds, which further enhances ACFA's credit position. As at March 31, 2018, $9.4 million (2017: $9.9 million) in collateral on net unfavourable positions has been posted on ACFA's behalf, and a total of $47.3 million (2017: $134.8 million) in collateral on net favourable positions has been posted on ACFA's behalf.

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

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

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

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

(h) Deposits: At March 31, 2018, deposits in futures contracts margin accounts totalled $38 million (2017: $20 million) and deposits as collateral for derivative contracts totalled $12 million (2017: $5 million).

The derivatives of government business enterprises are disclosed in Schedule 6.

NOTE 10 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

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

As at March 31, 2018, the fair value of trust and other funds under administration were as follows:

	($ millions) 2018	2017
Local Authorities Pension Plan Fund	$ 43,330	$ 39,289
Public Service Pension Plan Fund	13,524	12,381
Management Employees Pension Plan Fund	5,056	4,756
Special Forces Pension Plan Fund	2,902	2,782
Long term Disability Income Plan, Bargaining Unit	279	276
Long term Disability Income Plan, Management, Opted out and Excluded	69	72
Group Life Insurance Plan, Bargaining Unit	4	4
Group Life Insurance Plan, Management, Opted out and Excluded	37	33
Government of Alberta Dental Plan Trust	14	14
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	34	34
AGLC charitable proceeds under administration	17	17
Other pension plan funds and trust funds	752	696
	$ 66,018	$ 60,354

In addition, AIMCo, which provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans has $8,672 million (2017: $7,919 million) of assets under administration that are not reported as assets or trusts by the Ministry.

NOTE 11 DEFINED BENEFIT PLANS

The Ministry jointly sponsors and participates in three multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense to the Ministry for its employees in these plans is equivalent to the annual contributions of $14 million for the year ended March 31, 2018 (2017: $11 million).

At December 31, 2017, the Management Employees Pension Plan reported a surplus of $866 million (2016: $402 million), Local Authorities Pension Plan reported a surplus of $4,836 million (2016: deficiency of $637 million), Public Service Pension Plan reported a surplus of $1,276 million (2016: surplus of $303 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $55 million (2016: $50 million).

Long Term Disability Income Continuance Plans

The ministry administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective June 18, 2017, the employers contribute at a rate of 1.00 per cent of insurable salary. Long term disability benefits are funded equally by the employer and employees of this plan. At March 31, 2018, the Bargaining Unit Plan reported an actuarial surplus of $112 million (2017: surplus $102 million).

NOTE 11 DEFINED BENEFIT PLANS CONTINUED

For the Management, Opted Out and Excluded plan, effective June 18, 2017, the employers contribute at a rate of 0.30 per cent of insurable salary. At March 31, 2018 the Management, Opted Out and Excluded plan reported an actuarial surplus of $30 million (2017: $31 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2018, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2017: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The ministry also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2018, the Bargaining Unit plan reported net assets of $4 million (2017: $4 million) and the Management, Opted Out and Excluded plan reported net assets of $37 million (2017: $33 million). These amounts currently subsidize claim costs and stabilize premium rates for the plans. Management produced estimates based on available March 2017 data, which was reviewed by the actuary for reasonableness. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2017, the Government of Alberta Dental Plan Trust reported net assets of $14 million (2016: $14 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $34 million (2016: $34 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The ministry, together with the participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Public Service Health Spending Account Plan

The ministry also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2017 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2018, the Public Service Health Spending Account Plan reported net assets of $594,000 (2017: $428,000). The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 12 ADJUSTMENTS TO NET ASSETS

	($ millions) 2018	2017
Tobacco Tax Accrual [(a)]	$ -	$ 82
AGLC Equity [(b)]	-	(26)
	$ -	$ 56

[(a)] The Ministry corrected the method of accounting for accounts receivable on tobacco tax revenue in the year. As a result of the change, accounts receivable for the current year has been recorded at $78 million with current revenues not impacted. Previous year balance at March 31, 2017 has been restated to $83 million, an increase of $82 million with a corresponding increase to opening net assets of $82 million.

[(b)] The Ministry corrected the method of accounting for AGLC to align with public sector accounting standards for government business enterprises. Previously the Ministry reclassified the accounts receivable from AGLC as equity in government business enterprises and did not pick up the accumulated other comprehensive loss (AOCL) in AGLC. This reclassification no longer occurs and the Ministry only picks up the AOCL in AGLC as equity in government business enterprises.

The effect of the change to the current period is a decrease to financial assets of $9 million representing the loss in AGLC's AOCI of $9 million. The prior period has been restated to decrease financial assets by $26 million representing AGLC's AOCL. As a result, the opening net assets have been decreased by $26 million.

NOTE 13 SUBSEQUENT EVENTS

In 2018-19, the government is consolidating: (1) Human resource functions under the Public Service Commission within the Ministry of Treasury Board and Finance; (2) The *Freedom of Information and Protection of Privacy* (FOIP) delivery services under the Ministry of Service Alberta; (3) Information management and technology services under the Ministry of Service Alberta. The financial impact of these changes cannot be estimated at this time.

NOTE 14 COMPARATIVE FIGURES

Certain 2017 figures have been reclassified to conform to the 2018 presentation.

NOTE 15 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

Schedules to the Consolidated Financial Statements

March 31, 2018

REVENUES

SCHEDULE 1

($ millions)

	2018		2017
	Budget	Actual	Actual
Internal Government Transfers	$ 4	$ -	$ -
Income taxes			
Personal income tax	11,177	10,775	10,763
Corporate income tax	3,918	3,360	3,692
Interest and penalties on corporate income tax	-	88	77
	15,095	14,223	14,532
Other taxes			
Tobacco tax	1,026	907	953
Fuel tax	1,360	1,399	1,344
Insurance tax	623	575	548
Carbon levy	1,038	1,046	250
Tourism levy	79	85	77
Special broker tax	5	6	6
Interest and penalties on other tax	-	1	1
	4,131	4,019	3,179
Transfers from Government of Canada			
Canada Social Transfer	1,613	1,600	1,558
Resource Sector Assistance	-	30	-
Unconditional subsidy	5	5	5
	1,618	1,635	1,563
Net investment income	1,904	2,827	3,356
Net income from government business enterprises			
Alberta Gaming and Liquor Commission	2,321	2,283	2,285
ATB Financial	93	278	151
Credit Union Deposit Guarantee Corp.	23	20	31
	2,437	2,581	2,467
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	28	81	45
ATB Financial deposit guarantee fee	44	42	43
Alberta Securities Commission	46	53	48
Alberta Insurance Council	6	7	6
Other	7	12	9
	131	195	151
Other revenue			
Pensions administration	62	55	57
Service revenue	320	386	292
Insurance services	17	16	16
Securities settlements	1	3	2
Refunds of expenditure and miscellaneous	5	15	11
	405	475	378
	$ 25,725	$ 25,955	$ 25,626

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2018		2017
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 248	$ 308	$ 279
Supplies and services	446	481	422
Grants	876	740	578
Pension liability funding	550	546	536
Interest payments on corporate tax refunds	9	20	29
Pension recovery (Schedule 13)	(129)	(502)	(434)
Corporate income tax allowance adjustment	15	14	(142)
Amortization of tangible capital assets	25	25	23
Other financial transactions	1	1	1
Debt servicing costs	1,266	1,287	888
	$ 3,307	$ 2,920	$ 2,180

CASH AND CASH EQUIVALENTS

SCHEDULE 3

($ millions)

	2018	2017
Cash	$ 80	$ 389
Cash equivalents	8,642	5,966
	$ 8,722	$ 6,355

At March 31, 2018, deposits in banks had a time-weighted return of 1.1% (2017: 0.9%) per annum and securities have an average effective yield of 1.3% (2017: 0.7%) per annum.

Financial Information

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE — SCHEDULE 4

($ millions)

	2018	2017 (Restated) Note 12)
Corporate income tax [a]	$ 585	$ 649
Personal income tax	679	-
Interest and penalties receivable on taxes [a]	255	259
Proceeds from debt issuance	-	690
Alberta Gaming and Liquor Commission	418	382
Accrued interest receivable and sale of investments	190	192
ATB Financial	118	88
Insurance tax	154	148
Carbon levy	141	108
Fuel tax	108	107
Tobacco tax	78	83
Tourism levy	11	8
Financial institutions capital tax	3	2
Other	85	81
	2,825	2,797
Less corporate income tax allowance adjustment	(201)	(213)
	$ 2,624	$ 2,584

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2018	2017
Less than one year	$ 160	$ 336
1-2 years	198	183
2-3 years	165	121
3-4 years	102	90
4-5 years	87	59
Over 5 years	128	119
Total	$ 840	$ 908

At March 31, 2018, 878 (2017: 865) corporate income tax files totaling $611 million (2017: $614 million) were under objection/dispute.

PORTFOLIO INVESTMENTS

SCHEDULE 5

($ millions)

	March 31, 2018		March 31, 2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Interest-bearing securities				
Bonds, mortgages and private debt	$ 4,808	$ 4,684	$ 4,649	$ 4,604
	4,808	4,684	4,649	4,604
Equities				
Canadian	1,667	1,855	1,843	2,091
Global developed	5,627	5,744	6,339	6,581
Emerging markets	761	843	750	873
Private	1,443	1,516	1,333	1,516
	9,498	9,958	10,265	11,061
Inflation sensitive and alternative investments				
Private real estate	3,844	5,292	3,553	4,833
Private infrastructure investments	1,948	2,059	1,775	1,987
Timberland	389	593	346	531
	6,181	7,944	5,674	7,351
Strategic, tactical and currency investments	193	232	189	251
Total portfolio investments	$ 20,680	$ 22,818	$ 20,777	$ 23,267
Portfolio investments for:				
Department	$ -	$ -	$ -	$ -
Alberta Heritage Savings Trust Fund [(a)]	15,702	17,546	16,100	18,232
Other funds and entities [(a)]	4,978	5,272	4,677	5,035
	$ 20,680	$ 22,818	$ 20,777	$ 23,267

(a) Mainly comprised of assets designated in legislation for a specific purpose, such as stewardship of savings, cancer prevention, medical research, science and engineering research, and post-secondary scholarships.

Financial Information

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 6

($ millions)

	2018	2017 (Restated Note 12)
Accumulated surpluses at beginning of year	$ 3,456	$ 3,394
Total revenue	5,811	5,692
Total expense [(a)]	3,230	3,225
Net income	2,581	2,467
Change in accumulated unrealized losses	(138)	(118)
Remittances from AGLC	(2,281)	(2,287)
Accumulated surpluses at end of year	$ 3,618	$ 3,456
Represented by		
Assets		
Loans	$ 44,114	$ 40,814
Investments	5,184	5,783
Other assets	3,592	2,867
Total assets	52,890	49,464
Liabilities		
Accounts payable	2,733	3,005
Deposits [(b)]	38,131	36,190
Debt	8,408	6,813
Total liabilities	49,272	46,008
	$ 3,618	$ 3,456
Accumulated surpluses at end of year		
ATB Financial	$ 3,279	$ 3,147
Alberta Gaming & Liquor Commission	(9)	(26)
Credit Union Deposit Guarantee Corporation	348	335
Equity in government business enterprises at end of year	$ 3,618	$ 3,456

(a) Included in total expense is $65 million (2017: $59 million) of interest expense of ATB Financial that was paid to the Department for amounts borrowed directly by the Province on behalf of ATB Financial. Also included in the total expense is $82 million (2017: $45 million) of payment in lieu of taxes and $42 million (2017: $43 million) of deposit guarantee fee.

(b) Included in the deposits are ATB Financial wholesale borrowings that include amounts borrowed by the Province on behalf of ATB Financial totaling $4,653 million (2017: $2,892 million), to be repaid as follows: $2,963 million in 2018-19, $200 million in 2019-20, $200 million in 2020-2021, and $1,290 million thereafter.

The accumulated unrealized losses of the government business enterprises are as follows:

($ millions)

	2018	2017 (Restated Note 12)
Opening accumulated unrealized (losses)/gains	$ (57)	$ 87
Adjustment (Note 12)	-	(26)
Change	(138)	(118)
Ending accumulated unrealized losses	$ (195)	$ (57)

Contractual Obligations

Government business enterprises have the following contractual obligations:

	($ millions) 2018
2018-19	$ 152
2019-20	76
2020-21	37
2021-22	23
2022-23	19
Thereafter	72
	$ 379

In addition, ATB Financial has outstanding loan commitments of $19,585 million (2017: $18,716 million).

Guarantees and Indemnities

ATB Financial, at March 31, 2018, had a potential liability under guarantees and letters of credit amounting to $564 million (2017: $541 million).

Legal Actions

At March 31, 2018, the government business enterprises were involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the government business enterprises are jointly or separately named as a defendant in twenty (2017: eighteen) legal claims of which the outcome is not determinable. Of the twenty claims, fifteen (2017: thirteen) have specified amounts totaling approximately $152 million (2017: $144 million) and five (2017: five) claims have no specified amount. Two (2017: one) claims totaling approximately $2 million (2017: $1 million) are covered by the Alberta Risk Management Fund.

Derivative Contracts

ATB Financial has the following derivatives:

	($ millions) 2018 *Fair Value*	2017 *Fair Value*
Interest rate derivatives [(a)]	$ (113)	$ 65
Foreign currency derivatives	7	1
Forward commodity contracts [(b)]	16	15
Cross currency interest rate swaps	(5)	33
Embedded derivatives	(1)	(2)
	$ (96)	$ 112

(a) The exposure to credit risk on the fair value of our derivatives of $577 million (2017: $451 million) is reduced by $388 million resulting from entering into master netting agreements (2017: $246 million) and is reduced by $14 million in collateral agreements (2017: $127 million) with counterparties resulting in a residual credit exposure of $175 million (2017: $78 million) of the derivative assets and $108 million (2017: $57 million) of the derivative liability.

(b) Commodity price risk arises when ATB Financial offers deposit or derivative products where the value of the derivative instrument or rate of return on the deposit is linked to changes in the price of the underlying commodity. ATB Financial uses commodity-linked derivatives to fully hedge their associated commodity risk exposure on these products and does not accept any net direct commodity price risk.

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES — SCHEDULE 6, CONTINUED

Liability for Pension Obligations

The government business enterprises following IFRS have pension obligations of $107 million (2017: $145 million) comprised of $112 million (2017: $137 million) for employees in PSPP, MEPP and MSRP and $5 million in pension asset (2017: $8 million pension liability) in other pension plans.

LOANS AND ADVANCES — SCHEDULE 7

($ millions)

	Effective rate %	Maturity Range	2018	2017
Agriculture Financial Services Corporation [(a)]	3.09	2019 to 2030	$ 2,202	$ 2,188
Alberta Petroleum Marketing Commission [(a)]	1.38	2019	442	330
ATB Act subordinated debentures	2.77	2019 to 2023	331	344
Balancing Pool [(b)]	1.33	2019	802	232
Environmental Protection and Enhancement Fund [(c)]	-	-	75	50
Orphan Well Association (OWA) [(d)]	-	2021	50	-
OWA - Loan discount [(d)]	-	-	(4)	-
Other	-	-	7	-
			$ 3,905	$ 3,144

(a) The effective rate includes the effect of interest rate and currency rate swaps, if any.

(b) The Balancing Pool is a corporation established by the Government of Alberta, under the Electric Utilities Act.

(c) Accountable advance, of which $nil (2017: $nil) is interest bearing.

(d) 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 $4.2 million for the present value of foregone interest has been expensed in the current year and will be amortized to revenue in subsequent periods over the remaining life of the loan.

LOANS OF ALBERTA CAPITAL FINANCE AUTHORITY — SCHEDULE 8

($ millions)

	2018	2017
ACFA loans	$ 15,662	$ 15,469

Loans to the municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 3.80% per annum (2017: 3.88%).

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, regional services commissions and Metis settlements account for 65% (2017 – 66%) of all loan assets held by ACFA. This borrower category, excluding Metis settlements, 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 account for 25% (2017 – 25%) of all loan assets held by ACFA. This borrower category utilizes 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 account for the remaining 10% (2017 – 9%) of loan assets, each with terms and conditions specific to their respective loan agreements. As at and for the year ended December 31, 2017, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date.

The loan repayments are as follows:

	($ millions)	
	Principal	**Interest**
Within 1 year	$ 861	$ 543
1 to 3 years	2,528	1,523
over 3 years	12,273	3,724
Total	$ 15,662	$ 5,790

TANGIBLE CAPITAL ASSETS — SCHEDULE 9

($ millions)

	2018			
	Equipment	**Computer Hardware and Software**	**Leaseholds**	**Total**
Estimated useful life	10 years	5 years	10 years	
Historical Cost				
Beginning of year	$ 9	$ 191	$ 21	$ 221
Additions	-	16	-	16
Disposals - including write-downs	-	-	-	-
	9	207	21	237
Accumulated Amortization				
Beginning of year	6	66	12	84
Amortization expense	1	22	2	25
Effect of disposals	-	(2)	-	(2)
	7	86	14	107
Net book value at March 31, 2018	$ 2	$ 121	$ 7	$ 130
Net book value at March 31, 2017	$ 4	$ 127	$ 8	$ 139

ACCRUED INTEREST AND ACCOUNTS PAYABLE — SCHEDULE 10

	2018 ($ millions)	2017 ($ millions)
Corporate income tax receipts in abeyance	$ 801	$ 573
Corporate income tax refunds payable	698	626
Accrued interest on debt	462	401
Other	479	432
	$ 2,440	$ 2,032

SPENT DEFERRED CAPITAL CONTRIBUTIONS — SCHEDULE 11

	2018 ($ millions)	2017 ($ millions)
Opening balance	$ 48	$ 48
Additions	1	5
Recognized to revenue	(5)	(5)
Closing balance	$ 44	$ 48

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.

DEBT

SCHEDULE 12

Fiscal Year of Maturity Ending March 31,	Effective Interest Rate [b]	Debt [a] (in Canadian dollars) Canadian Dollar	US Dollar	Other Currencies	2018 Total	2017 Total
				($ millions)		
Floating rate debt						
2019	1.72%	$ 1,500	$ -	$ -	$ 1,500	$ 1,500
2021	1.75%	480	-	-	480	480
Fixed rate debt						
2018	-	-	-	-	-	6,041
2019	1.73%	5,420	3,976	-	9,396	795
2020	2.48%	1,818	2,999	-	4,817	4,821
2021	1.88%	2,972	1,646		4,618	4,628
2022	1.43%	2,911	702	1,309	4,922	4,679
2023	2.46%	2,806	1,891	-	4,697	-
Principal Due in:						
Less than 5 years	1.93%	$ 17,907	$ 11,214	$ 1,309	$ 30,430	$ 22,944
6-10 years	2.76%	10,798	2,932	497	14,227	12,060
11-20 years	3.67%	5,483	-	352	5,835	5,963
21 + years	3.23%	13,600	-	913	14,513	9,341
Total debt issued at face value	2.56%	$ 47,788	$ 14,146	$ 3,071	$ 65,005	$ 50,308
Unamortized discount					(290)	(229)
Total amortized cost					**$ 64,715**	**$ 50,079**

(a) Debt includes the following foreign currency denominated debt that is fully hedged to Canadian dollars to eliminate exposure to future fluctuations in exchange rates. Fully hedged foreign currency debt is translated into Canadian dollars at the rate of exchange established by the hedging agreement.

Fully Hedged Foreign Currency	Debt at PAR Mar 31/18	Debt at PAR Mar 31/17	Debt at cost (CAD$) Mar 31/18	Debt at cost (CAD$) Mar 31/17
US dollars	$ 10,855	$ 5,600	$ 14,137	$ 7,275
British pound sterling	£ 800	£ 650	1,309	1,061
Euros	€ 637	€ 637	911	912
Australian dollars	$ 865	$ 200	851	192

(b) The effective interest rate is based on the weighted average of debt issues. 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 and includes the effects of interest rate and currency swaps.

The consolidated gross debt of the Ministry totaling $69,368 million (2017: $52,971 million) is comprised of debt of the Ministry totaling $64,715 million (2017: $50,079 million) and debt of ATB Financial totaling $4,653 million (2017: $2,892 million) (Schedule 6, footnote (b)).

The total debt servicing cost of the Ministry totaling $1,357 million (2017: $952 million) is comprised of $1,030 million (2017: $701 million) for general government, $258 million (2017: $190 million) for ACFA, $1 million (2017: $2 million) for school construction debentures, all reported on the statement of operations, as well as $68 million

DEBT **SCHEDULE 12, CONTINUED**

(2017: $59 million) for ATB Financial for amounts borrowed directly by the Province on behalf of ATB Financial.

Derivative Financial Instruments

Derivative financial instruments include forward foreign exchange contracts, cross-currency swaps and interest rate swaps, which are used to hedge exposure to various risks associated with debt. The hedge effectiveness is the extent to which the hedge transaction results in offsetting changes in cash flow that the transaction was intended to provide. The effectiveness of a hedge agreement is determined on each payment settle date, when the cash flow matches the initial expectations of the hedge agreement. Associated with these instruments are credit risks that could expose the Ministry to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Ministry minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties. At March 31, 2018, the net fair value of these contracts totaled $(229) million (2017: $(143) million).

PENSION LIABILITY **SCHEDULE 13**

The President of Treasury Board, Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). The President of Treasury Board, Minister of Finance is also trustee for the Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2017 year end or March 31, 2018 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

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

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

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

The following is a summary of the plans for the year ending March 31, 2018:

Pension Plan [(a)]	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retirees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
					($ millions)		
LAPP	160,573	46	65,872	$ 1,242	$ 1,331	$ 1,575	34,465
PSPP	42,760	45	26,545	366	363	577	15,019
MEPP	5,557	49	5,357	82	107	236	1,007
MSRP	1,059	53	1,071	4	4	9	212
Teachers' Pre92	5,556	55	25,910	-	-	473	985
UAPP Pre92 [(b)]	572	62	3,693	17	17	134	N/A
PJMCPP [(b)]	127	62	164	1	3	8	4
PSMC [(b)]	1	64	1,689	-	-	49	57
SFPP [(b)]	4,454	41	2,630	47	43	118	210
MLAP [(b)]	-	-	110	-	-	4	-

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.

(b) These plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $12 million, PJMCPP $1 million, PSMC $48 million, SFPP $6 million and MLAP $4 million.

The liability for the pension obligations is as follows:

	2018 Pension Obligation	2018 Pension Provision (Recovery)	2017 Pension Obligation
		($ millions)	
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [(a)]	$ -	$ (186)	$ 186
Management Employees Pension Plan [(b)]	-	-	-
Public Service Pension Plan [(c)]	16	(101)	117
Supplementary Retirement Plan for Public Service Managers [(d)]	55	5	50
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans [(e)]	8	(15)	23
	79	(297)	376
Liability for pension obligations for Province's commitment towards pre-1992			
Teachers' Pension Plan [(f)]	7,774	(110)	7,884
Public Service Management (Closed Membership) Pension Plan [(g)]	506	(25)	531
Universities Academic Pension Plan [(h)]	244	(50)	294
Special Forces Pension Plan [(h)]	70	(20)	90
	8,594	(205)	8,799
Obligations to the Members of the Legislative Assembly [(i)]	42	-	42
	$ 8,715	$ (502)	$ 9,217

PENSION LIABILITY | SCHEDULE 13, CONTINUED

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

($ in millions)

	Total	Local Authorities Pension Plan	Management Employees Pension Plan (5)	Public Service Pension Plan	Other
Net assets available for benefits (1)		$ 42,729	$ 5,039	$ 13,426	$ 527
Pension obligation (2)		37,893	4,173	12,150	590
Pension plan deficit (surplus)		$ (4,836)	$ (866)	$ (1,276)	$ 63
Unamortized gains (3)		4,882	640	1,387	-
Timing differences (4)		(251)	(23)	(76)	-
(Accrued Benefit Asset) Future Benefit Liabiltiy at March 31, 2018		$ (205)	$ (249)	$ 35	$ 63
Liabilities for the Province's share for former and current employees at March 31, 2018	$ 79	$ -	$ -	$ 16	$ 63

(1) These are the net assets reported on the 2017 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2017 financial statements of the pension plans.

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

(4) Accounting timing differences between the pension plan fiscal year ends and March 31 for payments and interest expense.

(5) Currently, the Ministry's share of the Management Employee Pension Plan surplus is $140 million (2017: $60 million), however, there is an underlying valuation allowance of $140 million (2017: $60 million) as there is no expected realization of the surplus at this time.

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 6.49% of pensionable earnings shared equally between employers and employees until December 31, 2028. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by the December 31, 2015 actuarial funding valuation is being funded by special payments currently totaling 10.2% of pensionable earnings shared between employees and employers until December 31, 2016. Thereafter, the special payments will decrease successively to 4.96% until December 31, 2024, and to 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 4.34% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan for Public Service Managers is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2017 were at 12.80% (2016: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2018 are 7.00% of capped salary for plan members and 17.75% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2018 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

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

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

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

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

PENSION LIABILITY **SCHEDULE 13, CONTINUED**

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

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

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2016
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2015
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2016
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Mar. 31, 2017
Public Service Pension Plan	George and Bell Consulting	Dec. 31, 2016
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2017
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2014
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2016
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2016
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2018

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2017 or March 31, 2018 for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the salary escalation rate, inflation rate and discount rate.

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

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2017	3.00	2.00	6.00
Management Employees Pension Plan	Dec. 31, 2017	3.00	2.00	6.40
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2018	3.00	2.00	5.30
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2018	3.00	2.00	4.60
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2017	N/A	2.00	3.70
Public Service Pension Plan	Dec. 31, 2017	3.00	2.00	6.10
Special Forces Pension Plan	Dec. 31, 2017	3.00	2.00	5.90
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2017	3.00	2.00	5.90
Universities Academic Pension Plan	Mar. 31, 2018	3.00	2.00	6.00
Teachers' Pre-1992 Pension Plan	Mar. 31, 2018	N/A	2.00	3.70
Members of the Legislative Assembly Pension Plan	Mar. 31, 2018	N/A	2.00	3.70

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

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

The government business enterprises following IFRS pension obligations are reported in Schedule 6.

OTHER ACCRUED LIABILITIES — SCHEDULE 14

	($ millions)	
	2018	**2017 (Restated Note 5)**
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 5	$ 11
AIMCo employee benefits liability	103	83
Vacation entitlements	13	13
	$ 121	$ 107

RELATED PARTY TRANSACTIONS — SCHEDULE 15

Related parties are those entities consolidated in the Government of Alberta's financial statements. Related parties also include key management personnel and close family members of those individuals in the Ministry.

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

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

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

RELATED PARTY TRANSACTIONS

SCHEDULE 15, CONTINUED

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

	($ millions) 2018	2017
Revenues		
Interest from loans and advances to government entities	$ 83	$ 73
Interest from loans and advances to SUCH sector	55	57
Charges for services	18	17
	$ 156	$ 147
Expenses		
Debt servicing costs - school boards debt	$ 1	$ 2
Transfers	185	173
Cost of services	1	3
	$ 187	$ 178
Assets		
Accounts Receivable	$ 1	$ -
Accrued interest receivable from government entities	14	15
Accrued interest receivable from SUCH sector	12	12
Loans and advances to government entities	3,522	2,800
Loans and advances to SUCH sector	1,470	1,435
	$ 5,019	$ 4,262
Liabilities		
Other accrued liabilities		
Accounts and accrued interest payable	$ 4	$ 12
Future funding of school boards debt	6	11
	$ 10	$ 23

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

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

($ millions)	Revenue		Expense	
	2018	2017	2018	2017
Accommodations	$ -	$ -	$ 9	$ 8
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Internal audit services	1	1	-	-
Legal services	-	-	6	5
	$ 2	$ 2	$ 19	$ 17

Department of Treasury Board and Finance

Financial Statements

Year Ended March 31, 2018

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Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Treasury Board and Finance, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Treasury Board and Finance as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Operations

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual (Restated Note 3)
	($ millions)		
Revenues (Schedule 1)			
Internal government transfers	$ 3,199	$ 3,841	$ 4,436
Income taxes	15,095	14,223	14,532
Other taxes	4,131	4,019	3,179
Transfers from Government of Canada	1,619	1,635	1,563
Investment income	375	524	410
Premiums, fees and licences	79	134	97
Other revenue	6	7	10
	24,504	24,383	24,227
Expenses - Directly Incurred (Note 2d, Schedules 13 and 14)			
Program (Schedules 2 and 3)			
Ministry Support Services [(a)]	26	24	26
Budget Development and Reporting	5	5	5
Fiscal Planning and Economic Analysis	6	5	5
Investment, Treasury and Risk Management	13	15	10
Office of the Controller	3	2	2
Corporate Internal Audit Services	4	3	3
Tax and Revenue Management	40	46	52
Financial Sector Regulation and Policy	83	78	73
Provincial Bargaining Coordination Office	2	2	-
Public Service Commission	26	26	24
Public Agency Secretariat	3	-	-
Gaming	43	41	43
Communications and Public Engagement [(a)]	-	38	38
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	234	221	206
Climate Leadership Plan - Consumer Rebates	410	301	152
Teachers' pre-1992 pension liability funding	473	474	469
Pension recovery	(129)	(502)	(434)
Corporate income tax allowance adjustment	15	14	(142)
	1,257	793	532
Debt servicing			
School construction debentures	1	1	2
General government	1,335	1,392	1,009
	1,336	1,393	1,011
	2,593	2,186	1,543
Annual Surplus	$ 21,911	$ 22,197	$ 22,684

(a) Budget shown is original budget prior to restructuring which transferred $40 million to the Department for Communications and Public Engagement.

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

Financial Information

Statement of Financial Position

As at March 31, 2018

		($ millions) 2018		2017 (Restated Note 3)
Financial Assets				
Cash and cash equivalents (Schedule 5)	$	8,032	$	5,496
Accounts and accrued interest receivable (Schedule 6)		2,701		3,292
Loans and advances (Schedule 7)		22,727		19,507
		33,460		28,295
Liabilities				
Accounts and accrued interest payable (Schedule 9)		1,935		1,531
Debt (Schedule 10)		67,836		50,735
Pension liability (Schedule 11)		8,715		9,217
Other accrued liabilities (Schedule 12)		18		23
		78,504		61,506
Net Debt		(45,044)		(33,211)
Non-Financial Assets				
Tangible capital assets (Schedule 8)		13		14
		13		14
Net Liabilities	$	(45,031)	$	(33,197)
Net liabilities at beginning of year	$	(33,197)	$	(20,862)
Adjustment to opening net liabilities (Note 9)		-		82
Annual surplus		22,197		22,684
Net financing provided for general revenues (Notes 2a)		(34,031)		(35,101)
Net liabilities at end of year	$	(45,031)	$	(33,197)

Contractual obligations and contingent liabilities (Notes 5 and 6).

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

Statement of Change in Net Debt

Year ended March 31, 2018

		($ millions) 2018 Budget		2018 Actual		2017 Actual (Restated Note 3)
Annual Surplus	$	21,911	$	22,197	$	22,684
Acquisition of tangible capital assets		(7)		(3)		(3)
Amortization of tangible capital assets (Schedule 2)		2		4		4
Net financing provided for general revenues				(34,031)		(35,101)
Adjustment for Tobacco tax accounts receivable (Note 9)				-		82
Increase in net debt			$	(11,833)	$	(12,334)
Net debt at beginning of year				(33,211)		(20,877)
Net debt at end of year			$	(45,044)	$	(33,211)

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

Statement of Cash Flows

Year ended March 31, 2018

	2018	2017 (Restated Note 3)
	($ millions)	
Operating transactions		
Annual surplus	$ 22,197	$ 22,684
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	41	(27)
Amortization of tangible capital assets (Schedule 2)	4	4
Non-cash grant	4	-
Pension recovery	(502)	(434)
Corporate income tax allowance adjustment	14	(142)
	21,758	22,085
Decrease/(Increase) in accounts and accrued interest receivable	584	(876)
Increase/(Decrease) in accounts and accrued interest payable	399	(265)
Cash provided by operating transactions	22,741	20,944
Capital transactions		
Acquisition of tangible capital assets (Schedule 8)	(3)	(3)
Cash applied to capital transactions	(3)	(3)
Investing transactions		
Disposals of portfolio investments	-	5,017
Portfolio investments purchased	-	(1,356)
Repayments of loans and advances	21,122	18,549
Loans and advances	(24,285)	(17,468)
Cash (applied to) provided by investing transactions	(3,163)	4,742
Financing transactions		
Debt issues	55,555	43,446
Debt retirement	(38,557)	(29,981)
Grants for school construction debenture principal repayment (Schedule 3)	(6)	(9)
Net financing provided for general revenues	(34,031)	(35,101)
Cash applied to financing transactions	(17,039)	(21,645)
Increase in cash and cash equivalents	2,536	4,038
Cash and cash equivalents at beginning of year	5,496	1,458
Cash and cash equivalents at end of year	$ 8,032	$ 5,496

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

Notes to the Financial Statements

March 31, 2018

NOTE 1 AUTHORITY AND PURPOSE

The Department of Treasury Board and Finance (the Department), which includes the Public Service Commission and Public Agency Secretariat, operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The Department's focus is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a strong and inclusive public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury and risk management;
- government accounting standards; financial management policies; and performance planning and reporting;
- tax policy and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation,
- Public Agency Secretariat (PAS) collaborates with departments and public agencies to promote a consistent approach to public agency governance, recruitment and compensation;
- Communications and Public Engagement; and
- strategic leadership of human resources management for the Alberta Public Service.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (the Province) operate within the General Revenue Fund. The General Revenue Fund is administered by the President of Treasury Board, Minister of Finance. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund.

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

b) CHANGE IN ACCOUNTING POLICY

The department has prospectively adopted the following standards from April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights where applicable which are reflected in Note 2, Schedule 2, Schedule 13 and Schedule 14.

c) **FUTURE ACCOUNTING CHANGES**

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

• PS 3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/ or liabilities, together with related program or operating responsibilities.

• PS 3280 Asset Retirement Obligations (effective April 1, 2021)

Effective April 1, 2021, this standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

• PS 3450 Financial Instruments (effective April 1, 2021)

Adoption of this standard requires corresponding adoption of: PS 2601 Foreign Currency Translation; PS 1201 Financial Statement Presentation; and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; and how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments.

Management is currently assessing the impact of these standards on the financial statements.

d) **BASIS OF FINANCIAL REPORTING**

Revenues

All revenues are reported using the accrual method of accounting.

Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. A receivable is established for tax assessments that are outstanding. Revenue and tax receivables will be adjusted in the year in which any additional information becomes available from resulting audits, appeals, and court decisions. Corporate income tax refunds payable are accrued based primarily on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The adjustment to the allowance is recorded as an expense. The adjustment may increase or decrease the allowance as tax receivables are revalued in subsequent years based on resulting audits, appeals, and court decisions.

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

Direct Taxes such as fuel, carbon levy and tobacco are recorded during the period in which the taxable event occurs and when authorized by legislation.

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

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delivered under the Alberta/Federal Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

The Alberta Climate Leadership Adjustment Rebate is 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 first rebate payments were made January 1, 2017, to coincide with the introduction of Alberta's Carbon Levy, and are reported in the period in which the payments are made to Albertans.

Internal Government Transfers

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

Internal Government Transfers - Alberta Lottery Fund

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

Internal Government Transfers - Alberta Heritage Savings Trust Fund

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

Internal Government Transfers - Alberta Gaming and Liquor Commission

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

Transfers from Government of Canada

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

Transfer of Tangible Capital Assets from Other Government Departments/Entities

Transfers of tangible capital assets from other government departments or entities are recognized as revenue.

Expenses

Directly Incurred

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

Grants are recognized as expenses when authorized, eligibility criteria, if any, are met by the recipients and a reasonable estimate of the amounts can be made.

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

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- A pension recovery for the change in the pension liability (Schedule 11).
- A provision for the change in the long term disabilities plans liability (Schedule 9).
- A corporate income tax allowance adjustment for the change in the corporate income tax allowance (Schedule 6).
- Debt servicing costs.

Incurred by Others

Services contributed by other related entities in support of the Department's operations are not recognized but disclosed in Schedule 14.

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 the department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals, as well as cash and cash equivalents and portfolio investments.

Cash and Cash Equivalents

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

Accounts Receivable and Accrued Interest Receivable

Accounts receivable and accrued interest receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Portfolio Investments

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

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

Loans and Advances

Loans and advances are recognized at amortized cost, less any discounts and allowances for credit loss on a trade basis. Where there is no reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amounts.

Liabilities

Liabilities are present obligations of the department to external organizations and individuals arising from past transactions or events, 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 amounts.

The value of the pension liability and changes therein during the year are based on an actuarial extrapolation of the most recent actuarial valuation. This valuation technique uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees. Where the Province has a liability for pre-1992 pension obligations any experience gains or losses are recognized in the year incurred.

Debentures included in debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs. Debt is recorded in the Department's accounts on a trade date basis.

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

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 government 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 of the department are limited to tangible capital assets.

Tangible Capital Assets

Tangible capital assets acquired by right are not included. Tangible capital assets of the Department are recognized at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250,000 and the threshold for major systems enhancements is $100,000 and the threshold for all other tangible capital assets is $5,000. Amortization is charged only if the tangible capital asset is put into service.

Net Debt

Net debt is measured as the difference between the department's financial assets and liabilities.

Foreign Currency

Unhedged monetary items denominated in a foreign currency are translated at the year end rate of exchange. Hedged assets and liabilities denominated in foreign currencies are translated at the rate of exchange established by the terms of the hedging agreement.

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

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

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

Derivatives

Derivative contracts are used for hedging purposes. These derivatives are recorded at cost plus accrued interest. The estimated amounts receivable and payable from derivative contracts are included in the statement of financial position.

Gains and losses from these derivatives are recognized in the same period as the gains and losses of the hedged assets and liabilities. Income and expense from derivatives are included in investment income or debt servicing costs.

Measurement Uncertainty

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

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

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

Personal income tax revenue, totaling $10,775 million (2017: $10,763 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of primary household income growth used in determining personal income tax for the current fiscal year is 3.9% for 2017 calendar year (-4.5% for 2016) and 4.5% for 2018 calendar year (1.8% for 2017). Based on historical data, there is an uncertainty of plus or minus $518 million (2017: $510 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $3,360 million (2017: $3,692 million), see Schedule 1, and corporate income tax refunds of $698 million (2017: $626 million) per

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Schedule 9, are subject to measurement uncertainty due primarily to the timing differences between tax installments collected and future tax assessments, along with the estimate for the corporate income tax allowance.

The pension liability of $8,715 million (2017: $9,217 million), see Schedule 11, is subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

The Long Term Disability Income Continuance Plans' accrued liability of nil (2017: $nil), see Schedule 9, is subject to measurement uncertainty because the actual experience may differ significantly from assumptions used in the calculation.

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

NOTE 3 GOVERNMENT REORGANIZATIONS

Effective September 1, 2017, Communications and Public Engagement branches were transferred from each department to the Department of Treasury Board and Finance. Comparatives for 2017 have been restated as if the current organization structure had always been the same. The opening net Liabilities and net debt as at April 1, 2016 are restated. The Net Liabilities on April 1, 2016 are made up as follows:

	($ thousands)
Net liabilities as previously reported	$ (20,859,034)
Transfer from Department of Agriculture & Forestry	(116)
Transfer from Department of Culture & Tourism	(127)
Transfer from Department of Education	(133)
Transfer from Department of Environment and Parks	(284)
Transfer from Department of Executive Council	(612)
Transfer from Department of Community and Social Services	(165)
Transfer from Department of Economic Development and Trade	(75)
Transfer from Department of Service Alberta	(52)
Transfer from Department of Labour	(136)
Transfer from Department of Status of Women	(40)
Transfer from Department of Children's Services	(34)
Transfer from Department of Advanced Education	(145)
Transfer from Department of Energy	(114)
Transfer from Department of Justice & Solicitor General	(97)
Transfer from Department of Municipal Affairs	(105)
Transfer from Department of Transportation	(80)
Transfer from Department of Seniors and Housing	(52)
Transfer from Fines Distribution trust (Ministry of Justice & Solicitor General)	(6)
Transfer from Department of Indigenous Relations	(87)
Transfer from Department of Infrastructure	(122)
Total Transfers	**(2,582)**
Net liabilities at April 1, 2016	$ (20,861,616)

The Net Debt on April 1, 2016 is made up as follows:

	($ thousands)
Net debt as previously reported	$ (20,874,500)
Total Transfer from the above Departments	**(2,582)**
Net Debt at April 1, 2016	$ (20,877,082)

NOTE 4 RISK MANAGEMENT

a) DEBT MANAGEMENT

The objective of the Department's debt management activity is to raise funding for the Province and its agencies in a cost-effective manner, while ensuring that borrowed funds can be serviced and repaid as scheduled.

The Department's debt management goals include: ensuring sufficient liquidity to meet the Province's financial commitments and withstand market disruptions, providing stable and low-cost funding for the Province, maintaining access to both domestic and global debt markets to provide financing and liquidity for the Province and strategically structuring the debt portfolio to allow for prudent management of maturities and refinancing.

Debt of provincial corporations and regulated funds is managed separately in relation to their stated requirements and respective authorities.

In order to achieve this objective, the Department manages the following risks within approved policy guidelines:

- Refinancing risk is the risk that debt will have to be rolled over at an unusually high cost, or in extreme cases, cannot be rolled over at all.
- Interest rate exposure risk is the risk that debt servicing costs will increase as interest rates increase due to changes in floating interest rate debt, financing and refinancing of debt at long term interest rates.
- Foreign currency risk is the risk of increased debt servicing costs or larger refinancing requirements due to unfavourable movements in foreign currency markets.
- Liquidity risk is the risk that the Province will have insufficient cash to meet its financial commitments. This refers to a disruption in which funds cannot be raised in capital markets due to external forces.
- Credit risk is the risk of loss on invested funds in which an issuer or investment counterparty does not meet or defaults on its obligations.
- Operational risk is the risk that results from internal human and systems errors or inadequate processes and controls.
- Settlement risk is the risk that arises from non-simultaneous payment exchanges (late or missed payments).

b) ASSET MANAGEMENT

Cash and cash equivalents are used to repay debt as it matures, to provide funding for the capital and fiscal plans, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters and other unforeseen cash requirements.

NOTE 5 CONTRACTUAL OBLIGATIONS

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

	($ thousands) 2018	2017
Obligations under Operating Leases, Contracts and Programs	$ 419,484	$ 329,074

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

Obligations under Operating Leases, Contracts and Programs

	($ thousands) Total
2018-19	$ 65,273
2019-20	48,595
2020-21	48,746
2021-22	49,004
2022-23	47,866
Thereafter	160,000
	$ 419,484

NOTE 6 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

The Province ensures the debt of Alberta Capital Finance Authority of $1,535 million (2017: $2,234 million) and Alberta Social Housing Corporation of $55 million (2017: $59 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Department will ensure this obligation of the Corporation is carried out. At March 31, 2018 credit unions in Alberta held deposits totaling $21,490 million (2017: $21,590 million). Substantial assets are available from credit unions to safeguard the Department from risk of loss from its potential obligation under the Act.

The Province ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee payable of $42 million (2017: $43 million) by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2018, ATB Financial had deposits totalling $37,340 million (2017: $36,820 million).

The Province, through the Department and Agriculture and Forestry, provide guarantees of $71 million (2017: $64 million) to feeder associations.

The province guarantees the principal and interest of the $18 million, borrowed by the Board of Governors of Red Deer College from the Alberta Capital Finance Authority for the construction of the Student Residences at Red Deer College.

b) LEGAL ACTIONS

At March 31, 2018, the Department was involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued, cannot be reasonably estimated. Any losses arising from the settlement will be treated as a current year expense.

Of the various legal actions, at March 31, 2018, the Department is jointly or separately named as a defendant in one claim (2017: nil), the outcome of which is likely and has no amount specified (2017: nil). The Department has also been named in ten (2017: twelve) legal claims, the outcome of which is not determinable. Of these ten claims, four (2017: nine) have specified amounts totaling approximately $36 million (2017: $87 million) and six (2017: three) claims have no specified amount. Included in the total claims, five claims are covered in whole by Alberta Risk Management Fund. Of these five claims (2017: three) , two (2017: two) of the claims total $32 million (2017: $32 million) and three (2017: one) claims have no specified amounts.

Payments under guarantees are a statutory charge on the Department.

In addition, at March 31, 2018, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 7 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

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

As at March 31, 2018, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2018	**2017**
Local Authorities Pension Plan Fund	$ 43,330	$ 39,289
Public Service Pension Plan Fund	13,524	12,381
Management Employees Pension Plan Fund	5,056	4,756
Special Forces Pension Plan Fund	2,902	2,782
Other pension plan funds and Department trust funds	752	696
Long term Disability Income Plan, Bargaining Unit	279	276
Long term Disability Income Plan, Management, Opted Out and Excluded	69	72
Group Life Insurance Plan, Bargaining Unit	4	4
Group Life Insurance Plan, Management, Opted Out and Excluded	37	33
Government of Alberta Dental Plan Trust	14	14
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	34	34
	$ 66,001	$ 60,337

NOTE 8 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in three multi-employer pension plans: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense to the Department for its employees in these plans is equivalent to the annual contributions of $14 million for the year ended March 31, 2018 (2017: $11 million).

At December 31, 2017, the Management Employees Pension Plan reported a surplus of $866 million (2016: $402 million), Local Authorities Pension Plan reported a surplus of $4,836 million (2016: deficiency of $637 million), Public Service Pension Plan reported a surplus of $1,276 million (2016: $303 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $55 million (2016: $50 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2018, the Bargaining Unit Plan reported a surplus of $112 million (2017: $102 million) and the Management, Opted Out and Excluded Plan reported a surplus of $30 million (2017: $31 million). The expense for these two plans is limited to the employer's annual contributions for the year.

Long Term Disability Income Continuance Plans

The Department administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective June 18, 2017, the employers contribute at a rate of 1.00% of insurable salary. Long term disability benefits are funded equally by the employer and employees of this plan. At March 31, 2018, the Bargaining Unit Plan reported an actuarial surplus of $112 million (2017: $102 million).

For the Management, Opted Out and Excluded plan, effective June 18. 2017, the employers contribute at a rate of 0.30% of insurable salary. At March 31, 2018 the Management, Opted Out and Excluded plan reported an actuarial surplus of $30 million (2017: $31 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2018, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2017: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The Department also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2018, the Bargaining Unit plan reported net assets of $4 million (2017: $4 million) and the Management, Opted Out and Excluded plan reported net assets of $37 million (2017: $33 million). These amounts currently subsidize claim costs and stabilize premium rates for the plans. Management produced estimates based on available March 2017 data, which was reviewed by the actuary for reasonableness. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2017, the Government of Alberta Dental Plan Trust reported net assets of $14 million (2016: $14 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $34 million (2016: $34 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The department, together with the participating departments, records their share of employer contributions as expenses in their respective financial statements.

Public Service Health Spending Account Plan

The Department also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2017 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2018, the Public Service Health Spending Account Plan reported net assets of $594,000 (2017: $428,000). The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 9 ADJUSTMENT TO NET ASSETS

The Department corrected the method of accounting for accounts receivable on tobacco tax revenue in the year. As a result of this change, accounts receivable for the current year has been recorded at $78 million with current revenues not impacted. Previous year balance at March 31, 2017 has been restated to $83 million, an increase of $82 million with a corresponding increase to opening net assets of $82 million.

NOTE 10 SUBSEQUENT EVENTS

In 2018-19, the government is consolidating: (1) Human resource functions under the Public Service Commission within the Ministry of Treasury Board and Finance; (2) The *Freedom of Information and Protection of Privacy* (FOIP) delivery services under the Ministry of Service Alberta; (3) Information management and technology services under the Ministry of Service Alberta. The financial impact of these changes cannot be estimated at this time.

NOTE 11 COMPARATIVE FIGURES

Certain 2017 figures have been reclassified to conform to the 2018 presentation.

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.

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES — SCHEDULE 1

	2018 Budget ($ millions)	2018 Actual ($ millions)	2017 Actual ($ millions)
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 873	$ 1,557	$ 2,151
Transfer from Alberta Gaming and Liquor Commission	876	866	855
Transfer from Alberta Lottery Fund	1,446	1,418	1,430
Other	4	-	-
	3,199	3,841	4,436
Income taxes			
Personal income tax	11,177	10,775	10,763
Corporate income tax	3,918	3,360	3,692
Interest and penalties on corporate income tax	-	88	77
	15,095	14,223	14,532
Other taxes			
Tobacco tax	1,026	907	953
Fuel tax	1,360	1,399	1,344
Insurance tax	623	575	548
Carbon levy	1,038	1,046	250
Tourism levy	79	85	77
Special broker tax	5	6	6
Interest and penalties on other tax	-	1	1
	4,131	4,019	3,179
Transfers from Government of Canada			
Canada Social Transfer	1,614	1,600	1,558
Resource Sector Assistance	-	30	-
Unconditional Grant	5	5	5
	1,619	1,635	1,563
Investment income	375	524	410
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	28	81	45
ATB Financial deposit guarantee fees	44	42	43
Other	7	11	9
	79	134	97
Other revenue	6	7	10
	$ 24,504	$ 24,383	$ 24,227

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2018		2017
	Budget	Actual	Actual (Restated Note 3)
Salaries, wages and employee benefits	$ 89	$ 117	$ 115
Supplies and services	25	21	20
Supplies and services from Support Service Arrangements with Related Parties [1]	2	2	2
Grants	702	591	432
Financial transactions and other	1	1	1
Amortization of tangible capital assets	3	4	4
Pension liability funding	76	72	67
Corporate income tax allowance adjustment	15	14	(142)
Teachers' Pre-1992 pension liability funding	473	474	469
Debt servicing costs	1,336	1,392	1,009
Pension recovery	(129)	(502)	(434)
	$ 2,593	$ 2,186	$ 1,543

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

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Voted Actuals (4)	Unexpended (Over Expended)
Operational Expenses						
1. Ministry Support Services						
1.1 Minister's Office	$ 869	$ -	$ -	$ 869	$ 1,010	$ (141)
1.2 Deputy Minister's Office	803	-	-	803	750	53
1.3 Strategic and Business Services	19,912	-	-	19,912	17,887	2,025
1.4 Communications	1,506	-	(1,506)	-	-	-
	23,090	-	(1,506)	21,584	19,647	1,937
2. Budget Development and Reporting	4,979	-	-	4,979	4,989	(10)
3. Fiscal Planning and Economic Analysis	5,659	-	-	5,659	5,290	369
4. Investment, Treasury and Risk Management						
4.1 Treasury Management	11,759	-	-	11,759	8,898	2,861
4.2 Risk Management and Insurance	1,753	-	-	1,753	1,743	10
	13,512	-	-	13,512	10,641	2,871
5. Office of the Controller	2,658	-	-	2,658	2,465	193
6. Corporate Internal Audit Services	3,635	-	-	3,635	3,140	495
7. Tax and Revenue Management						
7.1 Tax and Revenue Administration	25,105	-	-	25,105	22,628	2,477
7.2 Border Community Competiveness Program	5,000	-	-	5,000	3,020	1,980
8. Financial Sector Regulation and Policy						
8.1 Financial Sector Regulation and Policy	5,597	-	-	5,597	5,313	284
8.2 Automobile Insurance Rate Board	1,477	-	-	1,477	1,217	260
	7,074	-	-	7,074	6,530	544
9. Provincial Bargaining Coordination Office	2,212	-	-	2,212	1,992	220
10. Public Service Commission						
10.1 Office of the Public Service Commissioner	649	-	-	649	644	5
10.2 Public Service Commission Programs	24,093	-	-	24,093	25,241	(1,148)
	24,742	-	-	24,742	25,885	(1,143)
11. Public Agency Secretariat	2,990	-	-	2,990		2,990
12. Gaming						
12.1 Gaming Research	1,600	-	-	1,600	1,501	99
12.2 Horse Racing and Breeding Renewal Program	35,000	-	-	35,000	32,575	2,425
12.3 Bingo Associations	6,800	-	-	6,800	6,291	509
	43,400	-	-	43,400	40,367	3,033
13. Communications and Public Engagement	-	-	40,414	40,414	37,700	2,714
Debt Servicing						
14 School Construction Debentures	-	-	-	-	-	-
14.1 School Construction Debenture Interest Payment	996	-	-	996	996	-
Total	165,052	-	38,908	203,960	185,290	18,670
Lapse/(Encumbrance)						18,670

LAPSE / ENCUMBRANCE

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Capital Plan Spending						
1 Strategic and Business Services	$ 3,328	$ -	$ -	$ 3,328	$ 2,520	$ 808
Total	3,328	-	-	3,328	2,520	808
Lapse/(Encumbrance)						808
Financial Transactions Vote by Program						
11 Grants for school construction debenture principal repayment	6,187	-	-	$ 6,187	6,187	-
Total	$ 6,187	$ -	$ -	$ 6,187	$ 6,187	$ -
Lapse/(Encumbrance)						$ -

(1) As per "Expense Vote by Program", "Capital Investment Vote by Program" and "Financial Transactions Vote by Program" on pages 274-275 of the 2017-18 Government Estimates.

(2) There were no supplementary estimates.

(3) Adjustments include Communications and Public Engagement that was transferred to the department as a result of OC 275/2017-Designation and Transfer of Responsibility (Note 3 - of these Financial Statements).

(4) Actuals exclude non-voted amounts such as amortization and valuation adjustments.

SALARY AND BENEFITS DISCLOSURE

SCHEDULE 4

($ thousands)

	2018				2017
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total (Restated- note 3)
Treasury Board and Finance					
Deputy Minister of Treasury Board and Finance (e)	$ 314	$ 8	$ 75	$ 397	396
Senior Assistant Deputy Minister (d)(f)	85	29	19	133	268
Chief Advisor on Negotiations (e)	206	8	46	260	274
Controller	216	7	51	274	284
Chief Internal Auditor (h)	170	-	39	209	239
Assistant Deputy Minister, Budget Development and Reporting	178	-	39	217	244
Assistant Deputy Minister, Financial Sector Regulation and Policy	174	-	39	213	244
Assistant Deputy Minister, Fiscal Planning & Economic Analysis	176	-	42	218	212
Assistant Deputy Minister, Strategic & Business Services	182	-	43	225	231
Assistant Deputy Minister, Tax and Revenue Administration	200	-	11	211	211
Assistant Deputy Minister, Treasury and Risk Management	243	-	58	301	279
Communications and Public Engagement					
Managing Director	209	30	10	249	276
Assistant Deputy Minister, Strategic Communications - Economic (g)	149	4	36	189	260
Assistant Deputy Minister, Strategic Communications - Social	189	-	44	233	261
Public Service Commission					
Deputy Minister of the Public Service Commission (e)	285	8	68	361	388
Deputy Minister, Public Agency Secretariat (d)(i)	77	90	17	184	222
Assistant Deputy Minister, Labour & Employment Practices	200	-	50	250	258
Senior Assistant Deputy Minister, Leadership & Talent Development (j)	205	-	48	253	286
Assistant Deputy Minister, Public Agency Secretariat	153	-	39	192	114
Assistant Deputy Minister, Strategic Services and Human Resource Transformation	174	-	42	216	223

(a) Base salary includes regular salary and earnings such as acting pay.

(b) Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2018.

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

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

(e) The Other Cash Benefits includes modifier in lieu of car.

(f) The position was occupied only till August 19,2017.

(g) The position was occupied by three individuals at different times during the year. The occupancy of this position changed on May 24, 2017 and on October 15, 2017.

(h) This position was occupied by two individuals at different times during the year. The occupancy of this position changed July 13, 2017.

(i) The position was occupied up to June 30, 2017.

(j) This position was occupied by three individuals during the year (April 1-January 12; January 15-February 5; February 6 - March 31).

CASH AND CASH EQUIVALENTS — SCHEDULE 5

	($ millions) 2018	2017
Cash	$ (611)	$ (470)
Cash equivalents	8,643	5,966
	$ 8,032	$ 5,496

At March 31, 2018, deposits in banks had a time-weighted return of 1.1% (2017: 0.9%) per annum and short-term cash equivalents have an average effective yield of 1.3% (2017: 0.7%) per annum.

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE — SCHEDULE 6

	($ millions) 2018	2017 (Restated Note 9)
Corporate income tax[a]	$ 585	$ 649
Personal income tax	679	-
Interest and penalties receivable on taxes[a]	255	259
Proceeds from debt issuance	-	690
Alberta Gaming and Liquor Commission	361	323
Alberta Lottery Fund	31	44
Alberta Heritage Savings Trust Fund	207	851
Accrued interest receivable	116	100
ATB Financial	118	88
Insurance tax	155	148
Carbon levy	141	108
Fuel tax	108	107
Tobacco tax	78	83
Tourism levy	11	8
Other	57	47
	2,902	3,505
Less corporate income tax allowance	(201)	(213)
	$ 2,701	$ 3,292

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2018	2017
Less than one year	$ 160	$ 336
1-2 years	198	183
2-3 years	165	121
3-4 years	102	90
4-5 years	87	59
Over 5 years	128	119
Total	$ 840	$ 908

At March 31, 2018, 878 (2017: 865) corporate income tax files totaling $611 million (2017: $614 million) were under objection/dispute.

LOANS AND ADVANCES

SCHEDULE 7

	Effective rate (%)	Maturity Range	2018	2017
			($ millions)	
Alberta Capital Finance Authority [a]	2.28	2019 to 2049	$ 14,111	$ 13,400
ATB Financial [a]	1.85	2019 to 2028	4,653	2,893
Agriculture Financial Services Corporation [a]	3.09	2019 to 2030	2,202	2,188
Alberta Petroleum Marketing Commission [a]	1.38	2019	441	330
ATB Act subordinated debentures	2.77	2019 to 2023	331	344
Balancing Pool [b]	1.33	2019	803	232
Alberta Investment Management Corporation [c]	0.87	-	62	67
Environmental Protection and Enhancement Fund [d]	-	-	75	50
Orphan Well Association (OWA) [e]	-	2021	50	-
OWA - Loan discount [e]	-	-	(4)	-
Other	-	-	3	3
			$ 22,727	$ 19,507

(a) The Department borrows money and loans it to various government entities with the exact same repayment terms and interest rates. The effective rate includes the effect of interest rate and currency rate swaps. Included in loans receivable is US$1,125 million fully hedged to CAD$1,459 million; AUD$485 million fully hedged to CAD$470 million; Euro €225 million fully hedged to CAD$326 million; British Pound £650 million fully hedged to CAD$1,061 million.

(b) The Balancing Pool is a corporation established by the Government of Alberta, under the Electric Utilities Act.

(c) Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the advance is a revolving demand credit facility up to a maximum of $70 million. The advance is repayable with six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.87% (2017: 0.56%).

(d) An accountable advance, of which $nil (2017: $nil) is interest bearing.

(e) 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 $4.2 million for the present value of foregone interest has been expensed in the current year and will be amortized to revenue in subsequent periods over the remaining life of the loan.

TANGIBLE CAPITAL ASSETS — SCHEDULE 8

	($ millions)	
	2018	
	Computer Hardware & Software	Total
Estimated useful life	5 years	
Historical Cost		
Beginning of year	$ 35	$ 35
Additions	3	3
Disposals - including write-downs	-	-
	38	38
Accumulated Amortization		
Beginning of year	21	21
Amortization expense	4	4
Effect of disposals	-	-
	25	25
Net book value at March 31, 2018	$ 13	$ 13
Net book value at March 31, 2017	$ 14	$ 14

ACCOUNTS AND ACCRUED INTEREST PAYABLE — SCHEDULE 9

	($ millions)	
	2018	2017
Corporate income tax receipts in abeyance	$ 801	$ 571
Corporate income tax refunds payable	698	626
Accrued interest on debt	402	315
Other	34	19
	$ 1,935	$ 1,531

The Department has an obligation to recognize the Government of Alberta's share in the liability for the Long Term Disability Income Continuance Plans. The share is $nil (2017: $nil).

DEBT

SCHEDULE 10

Fiscal Year of Maturity Ending March 31,	Effective Interest Rate (b)	Debt (a) (in Canadian dollars) Canadian Dollar	US Dollar	Other Currencies	2018 Total	2017 Total
				($ millions)		
Floating rate debt						
2019	1.72%	$ 1,500	$ -	$ -	$ 1,500	$ 1,500
2021	1.75%	480	-	-	480	480
Fixed rate debt						
2018	-	-	-	-	-	6,341
2019	1.68%	7,621	4,649	-	12,270	1,195
2020	2.43%	2,018	2,999	-	5,017	5,021
2021	1.65%	2,950	1,646	-	4,596	4,606
2022	1.43%	2,912	702	1,309	4,923	4,679
2023	2.38%	2,706	1,891	-	4,597	-
Principal Due in: less than 5 years	1.85%	$ 20,187	$ 11,887	$ 1,309	$ 33,383	$ 23,822
6 - 10 years	2.61%	11,300	2,932	497	14,729	12,162
11 - 20 years	3.61%	5,167	-	353	5,520	5,647
21+ years	3.23%	13,600	-	913	14,513	9,341
Total debt issued at face value	2.45%	$ 50,254	$ 14,819	$ 3,072	$ 68,145	$ 50,972
Unamortized discount					(309)	(237)
Total amortized cost					**$ 67,836**	**$ 50,735**

(a) Debt includes the following foreign currency denominated debt that is fully hedged to Canadian dollars to eliminate exposure to future fluctuations in exchange rates. Fully hedged foreign currency debt is translated into Canadian dollars at the rate of exchange established by the hedging agreement.

Fully Hedged Foreign Currency	Debt at PAR Mar 31/18	Mar 31/17	Debt at cost (CAD$) Mar 31/18	Mar 31/17
US dollars	$ 11,380	$ 5,600	$ 14,808	$ 7,275
British pound sterling	£ 800	£ 650	1,309	1,061
Euros	€ 637	€ 637	911	912
Australian dollars	$ 865	$ 200	851	192

(b) The effective interest rate is based on the weighted average of debt issues. 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 and includes the effects of interest rate and currency swaps.

Derivative Financial Instruments

Derivative financial instruments include forward foreign exchange contracts, cross-currency swaps and interest rate swaps, which are used to hedge exposure to various risks associated with debt. The hedge effectiveness is the extent to which the hedge transaction results in offsetting changes in cash flow that the transaction was intended to provide. The effectiveness of a hedge agreement is determined on each payment settle date, when the cash flow matches the initial expectations of the hedge agreement.

Associated with these instruments are credit risks that could expose the Department to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Department minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties.

DEBT — SCHEDULE 10, CONTINUED

The fair value of a derivative contract is an estimated calculation of the amount the Department would have to pay or receive to terminate the contract at the reporting date. The Department has no intention of terminating their contracts, and as such, the fair value of the contracts outstanding at year end are not included in the Statement of Financial Position. The table below shows the net fair value of outstanding derivative contracts at year end, by type of derivative:

	($ millions) 2018	2017
Foreign currency derivatives	$ (233)	$ (125)
Interest rate derivatives	4	(18)
Net fair value of derivative contracts	$ (229)	$ (143)

PENSION LIABILITY — SCHEDULE 11

The President of Treasury Board, Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). As well the President of Treasury Board, Minister of Finance is trustee for the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2017 year end or March 31, 2018 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

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

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

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

The following is a summary of the plans for the year ended March 31, 2018:

Pension Plan [a]	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retirees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
					($ millions)		
LAPP	160,573	46	65,872	$ 1,242	$ 1,331	$ 1,575	34,465
PSPP	42,760	45	26,545	366	363	577	15,019
MEPP	5,557	49	5,357	82	107	236	1,007
MSRP	1,059	53	1,071	4	4	9	212
Teachers' Pre92	5,556	55	25,910	-	-	473	985
UAPP Pre92 [b]	572	62	3,693	17	17	134	N/A
PJMCPP [b]	127	62	164	1	3	8	4
PSMC [b]	1	64	1,689	-	-	49	57
SFPP [b]	4,454	41	2,630	47	43	118	210
MLAP [b]	-	-	110	-	-	4	-

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.

(b) These plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $12 million, PJMCPP $1 million, PSMC $48 million, SFPP $6 million and MLAP $4 million.

The liability for the pension obligations are as follows:

	2018 Pension Obligation	2018 Pension Provision (Recovery)	2017 Pension Obligation
	($ millions)		
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ -	$ (186)	$ 186
Management Employees Pension Plan [b]	-	-	-
Public Service Pension Plan [c]	16	(101)	117
Supplementary Retirement Plan for Public Service Managers [d]	55	5	50
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans [e]	8	(15)	23
	79	(297)	376
Liability for the Province's commitment towards pre-1992 pension obligations			
Teachers' Pension Plan [f]	7,774	(110)	7,884
Public Service Management (Closed Membership) Pension Plan [g]	506	(25)	531
Universities Academic Pension Plan [h]	244	(50)	294
Special Forces Pension Plan [h]	70	(20)	90
	8,594	(205)	8,799
Obligations to the Members of the Legislative Assembly [i]	42	-	42
	$ 8,715	$ (502)	$ 9,217

Financial Information

PENSION LIABILITY **SCHEDULE 11, CONTINUED**

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

	($ in millions)				
	Total	Local Authorities Pension Plan	Management Employees Pension Plan [5]	Public Service Pension Plan	Other
Net assets available for benefits [1]		$ 42,729	$ 5,039	$ 13,426	$ 527
Pension obligation [2]		37,893	4,173	12,150	590
Pension plan deficit (surplus)		$ (4,836)	$ (866)	$ (1,276)	$ 63
Unamortized gains [3]		4,882	640	1,387	-
Timing differences [4]		(251)	(23)	(76)	-
(Accrued Benefit Asset) Future Benefit Liabiltiy at March 31, 2018		$ (205)	$ (249)	$ 35	$ 63
Liabilities for the Province's share for former and current employees at March 31, 2018	$ 79	$ -	$ -	$ 16	$ 63

(1) These are the net assets reported on the 2017 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2017 financial statements of the pension plans.

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

(4) Accounting timing differences between the pension plan fiscal year ends and March 31 for payments and interest expense.

(5) Currently, the Department's share of the Management Employee Pension Plan surplus is $140 million (2017: $60 million), however, there is an underlying valuation allowance of $140 million (2017: $60 million) as there is no expected realization of the surplus at this time.

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 6.49% of pensionable earnings shared equally between employers and employees until December 31, 2028. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by the December 31, 2015 actuarial funding valuation is being funded by special payments currently totaling 10.2% of pensionable earnings shared between employees and employers until December 31, 2016. Thereafter, the special payments will decrease successively to 4.96% until December 31, 2024, and to 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 4.34% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan for Public Service Managers is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2017 were at 12.80% (2016: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2018 are 7.00% of capped salary for plan members and 17.75% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2018 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

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

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

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

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

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

PENSION LIABILITY

SCHEDULE 11, CONTINUED

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

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2016
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2015
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2016
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Mar. 31, 2017
Public Service Pension Plan	George and Bell Consulting	Dec. 31, 2016
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2017
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2014
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2016
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2016
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2018

The liabilities for pension obligations are based upon actuarial extrapolations, of the most recent actuarial valuation performed at December 31, 2017 or March 31, 2018, for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate.

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

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2017	3.00	2.00	6.00
Management Employees Pension Plan	Dec. 31, 2017	3.00	2.00	6.40
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2018	3.00	2.00	5.30
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2018	3.00	2.00	4.60
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2017	N/A	2.00	3.70
Public Service Pension Plan	Dec. 31, 2017	3.00	2.00	6.10
Special Forces Pension Plan	Dec. 31, 2017	3.00	2.00	5.90
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2017	3.00	2.00	5.90
Universities Academic Pension Plan	Mar. 31, 2018	3.00	2.00	6.00
Teachers' Pre-1992 Pension Plan	Mar. 31, 2018	N/A	2.00	3.70
Members of the Legislative Assembly Pension Plan	N/A	N/A	2.00	3.70

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

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

OTHER ACCRUED LIABILITIES

SCHEDULE 12

	($ millions)	
	2018	**2017**
		(Restated-Note 3)
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 5	$ 11
Vacation entitlements	13	12
	$ 18	$ 23

RELATED PARTY TRANSACTIONS

SCHEDULE 13

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in the Department and their close family members.

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

The investment in Alberta Capital Finance Authority is recorded at cost because the Corporation has the authority to pay its accumulated surplus to municipal and other shareholders, which have borrowed money from the Corporation. At December 31, 2017, there is an accumulated operating surplus of $448 million (2016: $412 million). During the 2018 fiscal year, the Department paid $6 million (2017: $9 million) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions Services Corporation is not significant, either on a cost or on an equity basis.

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

The Department had transactions with related parties reported on the statement of operations and the statement of financial position at the amount of consideration agreed upon between the related parties.

RELATED PARTY TRANSACTIONS **SCHEDULE 13, CONTINUED**

($ millions)

	Entities in the Department		Other Entities	
	2018	**2017**	**2018**	**2017**
Revenues				
Transfers	$ 3,840	$ 4,429	$ -	$ -
Interest - government entities	372	320	83	73
Charges for services	123	88	-	-
	$ 4,335	$ 4,837	$ 83	$ 73
Expenses				
Cost of services	$ 4	$ 2	$ 2	$ 4
Assets				
Accounts receivable	$ 722	$ 1,298	$ -	$ -
Accrued interest receivable - government entities	95	85	14	15
Loans and advances to government entities	19,157	16,707	3,522	2,800
	$ 19,974	$ 18,090	$ 3,536	$ 2,815
Liabilities				
School construction debentures	$ -	$ -	$ 6	$ 11
	$ -	$ -	$ 6	$ 11

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed on Schedule 14.

($ millions)

	Revenue		Expense	
	2018	**2017**	**2018**	**2017**
Accommodations	$ -	$ -	$ 9	$ 8
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Internal audit services	1	1	-	-
Legal services	-	-	6	5
	$ 2	$ 2	$ 19	$ 17

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

ALLOCATED COSTS BY PROGRAM

SCHEDULE 14

Total allocated costs of $2,205 million are comprised of total expenses per statement of operations amounting to $2,186 million and expenses incurred by others amounting to $19 million.

Program	Expenses (1)	Expenses Incurred by Others (2)	Total 2018	Total 2017 (Restated Note 3)
	($ millions)			
Ministry Support Services	$ 24	3	$ 27	$ 28
Budget Development and Reporting	5	-	5	5
Fiscal Planning and Economic Analysis	5	-	5	5
Investment, Treasury and Risk Management	15	1	16	11
Office of the Controller	2	-	2	2
Corporate Internal Audit Services	3	-	3	3
Tax and Revenue Management	46	3	49	56
Financial Sector Regulation and Pensions	78	5	83	78
Public Bargaining Coordination Office	2	-	2	-
Public Service Commission	26	2	28	26
Public Agency Secretariat	-	-	-	-
Gaming	41	3	44	46
Communication and Public Engagement	38	2	40	38
Climate Leadership Plan - Consumer Rebates	301	-	301	152
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	221	-	221	206
Teachers' pre-1992 pension liability funding	474	-	474	469
Debt servicing	1,393	-	1,393	1,011
Pension Recovery	(502)	-	(502)	(434)
Corporate income tax allowance adjustment	14	-	14	(142)
	$ 2,186	$ 19	$ 2,205	$ 1,560

(1) Expenses – directly incurred as per the statement of operations.

(2) Includes accommodations of $9 million, corporate services of $4 million, and legal services of $6 million.

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ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2018

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Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Cancer Prevention Legacy Fund, which comprise the statement of financial position as at March 31, 2018, and the statements of change in net financial assets, operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands) 2018	2017
Financial assets		
Investments (Note 3)	$ 433,721	$ 447,362
Receivable from sale of investments	-	6,028
	433,721	453,390
Liabilities		
Transfer payable	-	6,328
Net Financial Assets	$ 433,721	$ 447,062
Net financial assets (Note 5)		
Accumulated operating surplus	$ 465,559	$ 470,492
Accumulated remeasurement losses	(31,838)	(23,430)
	$ 433,721	$ 447,062

Statement of Change in Net Financial Assets

Year Ended March 31, 2018

	($ thousands) 2018 Budget	2018 Actual	2017 Actual
Net operating deficiency	$ (17,250)	$ (4,933)	$ (6,179)
Net remeasurement losses		(8,408)	(9,977)
Decrease in net financial assets		**(13,341)**	**(16,156)**
Net financial assets, beginning of year		447,062	463,218
Net financial assets, end of year		$ 433,721	$ 447,062

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
	($ thousands)		
Investment income (Note 6)	$ 7,750	$ 7,515	$ 16,205
Investment expenses (Note 7)	-	(321)	(210)
Net income from operations	7,750	7,194	15,995
Transfers on behalf of the Ministry of Health (Note 5b)	(25,000)	(12,127)	(22,174)
Net operating deficiency	**(17,250)**	**(4,933)**	**(6,179)**
Accumulated operating surplus at beginning of year		470,492	476,671
Accumulated operating surplus at end of year		$ 465,559	$ 470,492

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2018

	2018	2017
	($ thousands)	
Unrealized loss on investments	$ (9,259)	$ (11,041)
Less: Amounts reclassified to the Statement of Operations - realized loss on investments	851	1,064
Net remeasurement losses	**(8,408)**	**(9,977)**
Accumulated remeasurement losses, beginning of year	(23,430)	(13,453)
Accumulated remeasurement losses, end of year	$ (31,838)	$ (23,430)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2018

	($ thousands) 2018	2017
Operating transactions		
Net income from operations	$ 7,194	$ 15,995
Non-cash items included in net income	851	1,064
	8,045	17,059
Decrease (increase) in accounts receivable	6,028	(6,028)
Cash provided by operating transactions	14,073	11,031
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	12,457	21,990
Purchase of investments	(8,075)	(17,400)
Cash provided by investing transactions	4,382	4,590
Transfers		
Transfers on behalf of the Ministry of Health	(12,127)	(22,174)
(Decrease) increase in transfer payable	(6,328)	6,328
Cash applied to transfers	(18,455)	(15,846)
Decrease in cash	-	(225)
Cash at beginning of year	-	225
Cash at end of year	$ -	$ -

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2018

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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.

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.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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, timberland investments, 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.

f) **CHANGES IN ACCOUNTING POLICY**

Effective April 1, 2017, management implemented the following accounting standards required for government organizations with fiscal years beginning on or after April 1, 2017. The adoption of these standards was applied on a prospective basis and did not have an impact on the financial position or performance of the Fund.

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

g) **FUTURE CHANGES IN ACCOUNTING POLICY**

The Public Sector Accounting Board issued the following accounting standards:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

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 investment policies 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).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2018**	**2017**
Interest-bearing securities					
Bonds and mortgages	$ -	$433,721	$ -	$ 433,721	$ 447,362
Total Fair Value of Investments	$ -	$433,721	$ -	$ 433,721	$ 447,362

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.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $433,721 (2017: $447,362). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data.

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.
- ***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.

Financial Information

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, 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 investments will decrease as market interest rates rise. Liquidity risk is the risk the Fund will not be able to meet its cash flow obligations as they fall due.

The Ministry of Treasury Board and Finance ensures 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, and quality constraints on fixed income instruments.

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.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	100.0%	100.0%
	100.0%	100.0%

ii) 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, 2018, the Fund's share of securities loaned under this program is $151,504 (2017: $173,565) and collateral held totals $163,823 (2017: $183,249). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in 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 are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 2.9% of total investments (2017: 2.9%).

c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting cash flow obligations. Liquidity requirements of the Fund are met through income generated from investments and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. The Fund's future liabilities include cash requests from the Minister of Health for the purposes of the Act and payables related to purchase of pool units.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

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

	Cumulative since 2006	
	2018	**2017**
Accumulated net income from operations	$ 217,722	$ 210,528
Transfers from the General Revenue Fund [a]	500,000	500,000
Accumulated transfers to Ministry [b]	(252,163)	(240,036)
Accumulated surplus from operations	465,559	470,492
Accumulated net remeasurement losses	(31,838)	(23,430)
Carrying value of net financial assets	$ 433,721	$ 447,062

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

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

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2018	2017
Interest-bearing securities	$ 7,515	$ 16,205

The investment income includes realized losses from disposal of pool units totalling $(851) (2017: $(1,064)) and income distributions from the pools total $8,366 (2017: $17,269).

NOTE 6 INVESTMENT INCOME 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.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2018	2017
Amounts charged by:		
AIMCo [(a)]	$ 291	$ 180
Alberta Treasury Board and Finance [(b)]	30	30
Total investment expenses	$ 321	$ 210
Increase (decrease) in expenses	52.9%	(53.5%)
Decrease in average investments under management	(3.2%)	(3.4%)
Increase in value of investments attributed to AIMCo	0.3%	0.8%
Investment expense as a percent of:		
Dollar earned	4.3%	1.3%
Dollar invested	0.1%	0.1%

(a) 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.

(b) For investment accounting and Fund 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	
Time-weighted rates of return, at fair value [(a)]	2018	2017	5 years	10 years
Net return on investments [(b)]	-0.3%	1.3%	1.7%	2.9%
Policy benchmark return [(b)]	-0.6%	0.5%	1.2%	2.4%
Value added by AIMCo	0.3%	0.8%	0.5%	0.5%

(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. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 3(5) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

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ALBERTA HERITAGE FOUNDATION
FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2018

Table of Contents

Auditor General
OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Foundation for Medical Research Endowment Fund, which comprise the statement of financial position as at March 31, 2018, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands) 2018	2017
Financial assets		
Investments (Note 3)	$ 1,917,349	$ 1,835,645
Receivable from sale of investments	845	-
	$ 1,918,194	$ 1,835,645
Liabilities		
Accounts payable	$ 845	$ -
Net financial assets	$ 1,917,349	$ 1,835,645
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,760,083	$ 1,652,959
Accumulated remeasurement gains	157,266	182,686
	$ 1,917,349	$ 1,835,645

Statement of Change in Net Financial Assets

Year Ended March 31, 2018

	($ thousands) 2018 Budget	2018 Actual	2017 Actual
Net operating surplus	$ 27,740	$ 107,124	$ 153,802
Net remeasurement losses		(25,420)	(27,729)
Increase in net financial assets		**81,704**	**126,073**
Net financial assets, beginning of year		1,835,645	1,709,572
Net financial assets, end of year		$ 1,917,349	$ 1,835,645

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
	($ thousands)		
Investment income (Note 6)	$ 111,102	$ 191,623	$ 231,377
Investment expenses (Note 7)	(12,082)	(13,219)	(12,603)
Net income from operations	99,020	178,404	218,774
Transfers for health research and innovation (Note 5b)	(71,280)	(71,280)	(64,972)
Net operating surplus	**$ 27,740**	**107,124**	**153,802**
Accumulated operating surplus at beginning of year		1,652,959	1,499,157
Accumulated operating surplus at end of year		$ 1,760,083	$ 1,652,959

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2018

	2018	2017
	($ thousands)	
Unrealized gains on investments	$ 220	$ 26,189
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(25,640)	(53,918)
Net remeasurement losses	**(25,420)**	**(27,729)**
Accumulated remeasurement gains, beginning of year	182,686	210,415
Accumulated remeasurement gains, end of year	$ 157,266	$ 182,686

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2018

	($ thousands) 2018	2017
Operating transactions		
Net income from operations	$ 178,404	$ 218,774
Non-cash items included in net income	(25,640)	(53,918)
	152,764	164,856
Increase in accounts receivable	(845)	-
Increase in accounts payable	845	-
Cash provided by operating transactions	152,764	164,856
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	301,865	440,699
Purchase of investments	(389,835)	(531,759)
Cash applied to investing transactions	(87,970)	(91,060)
Transfers		
Transfers for health research and innovation	(71,280)	(64,972)
Cash applied to transfers	(71,280)	(64,972)
(Decrease) increase in cash	(6,486)	8,824
Cash at beginning of year	16,127	7,303
Cash at end of year	$ 9,641	$ 16,127
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 9,641	$ 16,127

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (98%) 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, 2018

(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 Economic Development and Trade (EDT). 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 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 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.

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.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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, timberland investments, 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.

f) CHANGES IN ACCOUNTING POLICY

Effective April 1, 2017, management implemented the following accounting standards required for government organizations with fiscal years beginning on or after April 1, 2017. The adoption of these standards was applied on a prospective basis and did not have an impact on the financial position or performance of the Fund.

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  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

g) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

Financial Information

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 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).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2018**	**2017**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 9,641	$ -	$ 9,641	$ 16,127
Bonds, mortgages and private debt	-	248,054	111,575	359,629	334,378
	-	257,695	111,575	369,270	350,505
Equities					
Canadian	118,459	7,751	30,358	156,568	165,459
Global developed	414,732	34,224	140,663	589,619	595,402
Emerging markets	63,281	4,686	16,218	84,185	73,460
Private	-	-	129,893	129,893	125,721
	596,472	46,661	317,132	960,265	960,042
Inflation sensitive					
Real estate	-	-	366,923	366,923	332,548
Infrastructure	-	-	162,937	162,937	139,774
Timberland	-	-	41,610	41,610	34,759
	-	-	571,470	571,470	507,081
Strategic, tactical and currency investments *	-	1,086	15,258	16,344	18,017
Total Fair Value of Investments	$ 596,472	$ 305,442	$ 1,015,435	$ 1,917,349	$ 1,835,645

* 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. This level includes publicly traded listed equity investments totalling $596,472 (2017: $582,921).
- ***Level 2*** - fair value is estimated using valuation methods that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $305,442 (2017: $315,635). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

NOTE 3 INVESTMENTS (in thousands) CONTINUED

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $1,015,435 (2017: $937,089).

Reconciliation of Level 3 Investments

	2018	2017
Balance, beginning of period	$ 937,089	$ 952,857
Unrealized gains (losses)	20,242	(3,593)
Purchases of Level 3 pooled fund units	186,517	287,068
Sale of Level 3 pooled fund units	(128,413)	(299,243)
Balance, end of period	$ 1,015,435	$ 937,089

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 timberland 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 and 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, Minister of Finance approved the following target policy asset mix:

	Target	Actual Asset Mix			
Asset Class	**Asset Policy**	**2018**		**2017**	
Interest-bearing securities	15 - 45%	$ 369,270	19.3%	$ 350,505	19.1%
Equities	35 - 70%	960,265	50.1%	960,042	52.3%
Inflation sensitive	15 - 40%	571,470	29.8%	507,081	27.6%
Strategic, tactical and currency investments	(a)	16,344	0.8%	18,017	1.0%
		$ 1,917,349	100.0%	$ 1,835,645	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.

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.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	71.3%	74.4%
Speculative Grade (BB+ or lower)	0.5%	0.2%
Unrated	28.2%	25.4%
	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 pooled funds to eligible third parties for short periods. At March 31, 2018, the Fund's share of securities loaned under this program is $76,408 (2017: $91,915) and collateral held totals $81,607 (2017: $97,550). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 42% (2017: 36%) of the Fund's investments, or $803,076 (2017: $652,116), are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 21% (2017: 19%) and the Euro, 6% (2017: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.2% of total investments (2017: 3.6%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2018:

	($ thousands)			
	2018		2017	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 393,463	$ (39,347)	$ 348,732	$ (34,873)
Euro	117,820	(11,782)	74,809	(7,481)
British pound sterling	86,813	(8,681)	35,728	(3,573)
Japanese yen	50,370	(5,037)	48,504	(4,851)
Hong Kong dollar	23,119	(2,312)	18,280	(1,828)
Other foreign currency	131,491	(13,149)	126,063	(12,606)
Total foreign currency investments	$ 803,076	$ (80,308)	$ 652,116	$ (65,212)

(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 1.2% of total investments (2017: 1.1%)

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 6.2% of total investments (2017: 6.2%). 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 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. The Fund's future liabilities include annual transfer requirements to the Ministry of EDT 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 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	2018	2017
Contracts in favourable position (current credit exposure)	60	$ 14,758	$ 9,498
Contracts in unfavourable position	19	(27,636)	(6,865)
Net fair value of derivative contracts	79	$ (12,878)	$ 2,633

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 $14,758 (2017: $9,498) 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	2018	2017
Structured equity replication derivatives	$ (6,575)	$ 2,713
Foreign currency derivatives	(8,825)	(1,004)
Interest rate derivatives	2,153	231
Credit risk derivatives	369	693
Net fair value of derivative contracts	$ (12,878)	$ 2,633

i) Structured equity replication derivatives: Equity index swaps 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 index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: 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: 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) Deposits: At March 31, 2018 deposits in futures contracts margin accounts totalled $3,409 (2017: $1,722) and deposits as collateral for derivative contracts totalled $844 (2017: $347).

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	
	2018	**2017**
Accumulated net income from operations	$ 2,759,270	$ 2,580,866
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]	(1,799,187)	(1,727,907)
Accumulated surplus from operations	1,760,083	1,652,959
Accumulated remeasurement gains	157,266	182,686
Carrying value of net financial assets	$ 1,917,349	$ 1,835,645

(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 EDT. Payments to the Ministry of EDT 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 EDT.

Financial Information

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2018	2017
Interest-bearing securities	$ 13,440	$ 22,709
Equities		
Canadian	9,160	14,191
Global	95,774	130,034
Private	11,033	18,202
	115,967	162,427
Inflation sensitive		
Real estate	29,738	36,594
Infrastructure	21,861	8,815
Timberland	5,171	2,850
	56,770	48,259
Strategic, tactical and currency investments	5,446	(2,018)
	$ 191,623	$ 231,377

The investment income includes realized gains and losses from disposal of pool units totalling $25,005 (2017: $54,355) and from directly held foreign exchange contracts totalling $635 (2017: $(437)). Income distributions from the pools total $165,983 (2017: $177,459).

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.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2018	2017
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 10,991	$ 10,159
Performance based fees [(a)]	2,179	2,395
	13,170	12,554
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 13,219	$ 12,603
Increase (decrease) in expenses	4.9%	(6.3%)
Increase in average investments under management	5.9%	5.0%
Increase in value of investments attributed to AIMCo	1.2%	0.9%
Investment expenses as a percent of:		
Dollar earned	6.9%	5.4%
Dollar invested	0.7%	0.7%

(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)]	2018	2017	5 years	10 years
Net return on investments [(b)]	8.4%	11.4%	10.8%	7.7%
Policy benchmark return [(b)]	7.2%	10.5%	9.6%	7.1%
Value added by AIMCo [(c)]	1.2%	0.9%	1.2%	0.6%

(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 reflected in the 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, 2018

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Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2018, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018
(in millions)

	2018		2017	
Financial assets				
Investments (Note 3)	$	17,633	$	18,334
Receivable from sale of investments		10		-
		17,643		18,334
Liabilities				
Due to the General Revenue Fund		207		851
Payable from purchase of investments		10		-
		217		851
Net financial assets	$	17,426	$	17,483
Net financial assets (Note 5)				
Accumulated operating surplus	$	15,582	$	15,352
Accumulated remeasurement gains		1,844		2,131
	$	17,426	$	17,483

Statement of Change in Net Financial Assets

Year Ended March 31, 2018
(in millions)

	2018				2017	
	Budget		Actual		Actual	
Net surplus retained in the Fund	$	292	$	230	$	182
Net remeasurement losses				(287)		(445)
Decrease in net financial assets				**(57)**		**(263)**
Net financial assets, beginning of year				17,483		17,746
Net financial assets, end of year			$	17,426	$	17,483

The accompanying notes are part of these financial statements.

Financial Information

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2018

(in millions)

	2018 Budget	2018 Actual	2017 Actual
Investment income (Note 7)	$ 1,290	$ 1,926	$ 2,467
Investment expenses (Note 8)	(125)	(139)	(134)
Net income from operations	1,165	1,787	2,333
Transfers to the General Revenue Fund (Note 5b)	(873)	(1,557)	(2,151)
Net surplus retained in the Fund (Note 5b)	**$ 292**	**230**	**182**
Accumulated operating surplus, beginning of year		15,352	15,170
Accumulated operating surplus, end of year		$ 15,582	$ 15,352

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2018

(in millions)

	2018	2017
Unrealized gain on investments	$ 25	$ 157
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(312)	(602)
Net remeasurement losses	**(287)**	**(445)**
Accumulated remeasurement gains, beginning of year	2,131	2,576
Accumulated remeasurement gains, end of year	$ 1,844	$ 2,131

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2018

(in millions)

	2018	2017
Operating transactions		
Net income from operations	$ 1,787	$ 2,333
Non-cash items included in net income	(312)	(602)
	1,475	1,731
Increase in accounts receivable	(10)	-
Increase in accounts payable	10	-
Cash provided by operating transactions	1,475	1,731
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,113	5,236
Purchase of investments	(3,403)	(5,432)
Cash provided by (applied to) investing transactions	710	(196)
Transfers		
Transfers to the General Revenue Fund	(1,557)	(2,151)
(Decrease) increase in amounts due to the General Revenue Fund	(644)	622
Cash applied to transfers	(2,201)	(1,529)
(Decrease) increase in cash	(16)	6
Cash at beginning of year	103	97
Cash at end of year	$ 87	$ 103
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 87	$ 103

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (98%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2018

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 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 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.

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 7). 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 8). 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.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING... CONTINUED

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, timberland investments, 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.

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)).

g) CHANGES IN ACCOUNTING POLICY

Effective April 1, 2017, management implemented the following accounting standards required for government organizations with fiscal years beginning on or after April 1, 2017. The adoption of these standards was applied on a prospective basis and did not have an impact on the financial position or performance of the Fund.

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

h) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standard:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of this standard on the financial statements.

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, 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).

	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2018**	**2017**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 87	$ -	$ 87	$ 103
Bonds, mortgages and private debt	-	2,017	1,164	3,181	3,172
	-	2,104	1,164	3,268	3,275
Equities					
Canadian	1,090	71	279	1,440	1,653
Global developed	2,897	242	1,115	4,254	5,086
Emerging markets	483	36	124	643	694
Private	-	-	1,218	1,218	1,229
	4,470	349	2,736	7,555	8,662
Inflation sensitive					
Real estate	-	-	4,438	4,438	4,055
Infrastructure	-	-	1,667	1,667	1,666
Timberland	-	-	513	513	469
	-	-	6,618	6,618	6,190
Strategic, tactical and currency investments *	-	18	174	192	207
Total Fair Value of Investments	$ 4,470	$ 2,471	$ 10,692	$ 17,633	$ 18,334

* 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. This level includes publicly traded listed equity investments totalling $4,470 (2017: $5,144).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $2,471 (2017: $2,764). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $10,692 (2017: $10,426).

NOTE 3 INVESTMENTS (in millions) CONTINUED

Reconciliation of Level 3 Investments

	2018	2017
Balance, beginning of year	$ 10,426	$ 10,927
Unrealized losses	(14)	(123)
Purchases of Level 3 pooled fund units	1,745	2,808
Sale of Level 3 pooled fund units	(1,465)	(3,186)
Balance, end of year	$ 10,692	$ 10,426

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 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 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 timberland 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 and 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 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, Minister of Finance has approved the following target policy asset mix:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2018		Actual Asset Mix 2017	
Interest-bearing securities	15 - 45%	$ 3,268	18.5%	$ 3,275	17.9%
Equities	35 - 70%	7,555	42.8%	8,662	47.2%
Inflation sensitive	15 - 40%	6,618	37.6%	6,190	33.8%
Strategic, tactical and currency investments	(a)	192	1.1%	207	1.1%
		$ 17,633	100.0%	$ 18,334	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.

Financial Information

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.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	66.9%	71.5%
Speculative Grade (BB+ or lower)	0.5%	0.2%
Unrated	32.6%	28.3%
	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 the pools to eligible third parties for short periods. At March 31, 2018, the Fund's share of securities loaned under this program is $592 (2017: $810) and collateral held totals $632 (2017: $860). 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 37% (2017: 31%) of the Fund's investments, or $6,552 (2017: $5,756), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 18% (2017: 17%) and the Euro, 6% (2017: 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 Fund would be approximately 3.7% of total investments (2017: 3.1%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2018:

	2018		2017	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,089	$ (309)	$ 3,065	$ (307)
Euro	1,043	(104)	641	(64)
British pound sterling	834	(83)	303	(30)
Japanese yen	366	(37)	413	(41)
Other foreign currency	1,220	(122)	1,334	(134)
Total foreign currency investments	$ 6,552	$ (655)	$ 5,756	$ (576)

[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 (2017: 1.1%).

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 5.6% of total investments (2017: 5.9%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

Financial Information

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) 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, timberland, 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.

By counterparty	Number of counterparties	Fund's Indirect Share 2018	Fund's Indirect Share 2017
Contracts in net favourable position (current credit exposure)	59	$ 111	$ 89
Contracts in net unfavourable position	20	(239)	(79)
Net fair value of derivative contracts	79	$ (128)	$ 10

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 $111 (2017: $89) 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	Fund's Indirect Share 2018	Fund's Indirect Share 2017
Structured equity replication derivatives	$ (50)	$ 25
Foreign currency derivatives	(98)	(23)
Interest rate derivatives	17	2
Credit risk derivatives	3	6
Net fair value of derivative contracts	$ (128)	$ 10

i) Structured equity replication derivatives: 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 derivative. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: 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: 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) Deposits: At March 31, 2018, deposits in futures contracts margin accounts totalled $30 (2017: $16) and deposits as collateral for derivative contracts totalled $10 (2017: $4).

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	
	2018	**2017**
Accumulated net income	$ 42,565	$ 40,778
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [a]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8 transfers [b]		
Income	(42,770)	(40,983)
Amount Retained in the Fund	3,561	3,331
	(39,209)	(37,652)
Capital Expenditures (1976-1995) [c]	(3,486)	(3,486)
Other Statutory Transfers [d]	(255)	(255)
	(42,950)	(41,393)
Accumulated surplus from operations	15,582	15,352
Accumulated remeasurement gains	1,844	2,131
Carrying value of net financial assets	$ 17,426	$ 17,483

[a] Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3,000 may be transferred from the GRF to the Fund (see Note 6 (ii)).

[b] During the year, the Fund earned net income of $1,787, of which $230 was retained in the Fund and $1,557 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, 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 and $3 for the Agriculture and Food Innovation Account were made during 2014-15 in accordance with the *Savings Management Act (*Sections 7 and 4(1) respectively). This Act was repealed December 17, 2014. The transfers from the Fund remain with the Alberta Heritage Scholarship Fund to be used for trades scholarships, and with Agriculture and Rural Development, to support basic and applied agricultural research, education and commercialization. Transfers out of the Fund to the Access to the Future Fund total $52.

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions)

The following notional account has been established within the Fund. The notional balance provided below is used as a base to which a rate is applied to determine future cash transfers to support advanced education and educational initiatives for the long-term benefit of Albertans:

	2018	2017
Balance, beginning of year	$ 1,460	$ 1,319
Rate of return adjustment	124	141
Balance, end of year	$ 1,584	$ 1,460

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions) CONTINUED

i) The Account was established for the purpose of funding the Access to the Future Fund in the Ministry of Advanced Education. The Access to the Future Fund supports innovation and excellence that enhances and expands opportunities for Albertans to participate in accessible, affordable and high-quality advanced education opportunities.

ii) A maximum of $3,000 can be allocated to the account from within the Fund of which $750 has been allocated in 2005-06 and $250 in 2006-07. The balance in the account is adjusted for (a) the rate of return reported by the Fund for the period and (b) transfers to the Access to the Future Fund.

iii) Maximum transfers to the Access to the Future Fund are calculated as 4.5% of the average of the closing balances of the Account for the preceding 3 fiscal years. Effective in fiscal year 2015-16, transfers to the Access to the Future Fund are made from the General Revenue Fund (Sec 4(7) of the *Access to the Future Act*). The last transfer to the Access to the Future Fund was made in 2014-15.

NOTE 7 INVESTMENT INCOME (in millions)

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

	2018	2017
Interest-bearing securities	$ 127	$ 226
Equities		
Canadian	101	160
Global	826	1,264
Private	140	195
	1,067	1,619
Inflation sensitive		
Real estate	357	434
Infrastructure	250	164
Timberland	71	38
	678	636
Strategic, tactical and currency investments	54	(14)
	$ 1,926	$ 2,467

The investment income includes realized gains and losses from disposal of pool units totalling $313 (2017: $598) and from directly held foreign exchange contracts totalling ($1) (2017: $4). Income distributions from the pools total $1,614 (2017: $1,865).

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.

NOTE 8 INVESTMENT EXPENSES (in millions)

	2018	2017
Amount charged by AIMCo for:		
Investment costs [a]	$ 109	$ 107
Performance based fees [a]	30	27
Total investment expenses	$ 139	$ 134
Increase (decrease) in expenses	3.7%	(10.7%)
Decrease in average investments under management	(0.9%)	0.0%
Increase in value of investments attributed to AIMCo	1.4%	0.6%
Investment expense as a percent of:		
Dollar earned	7.2%	5.4%
Dollar invested	0.8%	0.7%

(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.

Includes $115 thousand (2017: $118 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services and $55 thousand (2017: $54 thousand) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 9 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]	**2018**	**2017**	**5 years** [d]	**10 years**
Net return on investments [b]	8.5%	10.7%	10.4%	7.7%
Policy benchmark return [b]	7.1%	10.1%	9.5%	7.2%
Value added by AIMCo [c]	1.4%	0.6%	0.9%	0.5%

(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 reflected in the 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 five-year annualized CPI is 1.6%, bringing the five-year annualized Portfolio Return Expectation to 7.1%.

NOTE 10 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, 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 which is made public on or before June 30 following each fiscal year ending on the preceding March 31.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

March 31, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Scholarship Fund, which comprise the statement of financial position as at March 31, 2018, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Scholarship Fund as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands) 2018	2017
Financial assets		
Investments (Note 3)	$ 1,351,077	$ 1,301,336
Receivable from sale of investments	909	-
	1,351,986	1,301,336
Liabilities		
Accounts payable	1,331	220
Net Financial Assets	$ 1,350,655	$ 1,301,116
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,269,328	$ 1,205,282
Accumulated remeasurement gains	81,327	95,834
	$ 1,350,655	$ 1,301,116

Statement of Change in Net Financial Assets

Year Ended March 31, 2018

	($ thousands) 2018 Budget	2018 Actual	2017 Actual
Net operating surplus	$ 12,961	$ 64,046	$ 97,360
Net remeasurement losses		(14,507)	(10,117)
Increase in net financial assets		**49,539**	**87,243**
Net financial assets, beginning of year		1,301,116	1,213,873
Net financial assets, end of year		$ 1,350,655	$ 1,301,116

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2018

	2018 Budget ($ thousands)	2018 Actual	2017 Actual
Investment income (Note 6)	$ 71,498	$ 123,340	$ 156,448
Investment expenses (Note 7)	(8,248)	(9,036)	(8,251)
Net income from operations	63,250	114,304	148,197
Transfers from Alberta Government departments	800	-	-
Other contributions	90	14	23
Transfers for Scholarships to the Ministries of:			
Advanced Education	(51,099)	(50,220)	(50,805)
Culture and Tourism	(80)	(52)	(55)
	(51,179)	(50,272)	(50,860)
Net operating surplus	**$ 12,961**	**64,046**	**97,360**
Accumulated operating surplus, beginning of year		1,205,282	1,107,922
Accumulated operating surplus, end of year		$ 1,269,328	$ 1,205,282

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2018

	2018 ($ thousands)	2017
Unrealized (losses) gains on investments	$ (2,142)	$ 21,638
Less: Amounts reclassified to the Statement of Operations		
- realized gains on investments	(12,365)	(31,755)
Net remeasurement losses	**(14,507)**	**(10,117)**
Accumulated remeasurement gains, beginning of year	95,834	105,951
Accumulated remeasurement gains, end of year	$ 81,327	$ 95,834

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2018

	($ thousands) 2018	2017
Operating transactions		
Net income from operations	$ 114,304	$ 148,197
Non-cash items included in net income	(12,365)	(31,755)
	101,939	116,442
Increase in accounts receivable	(909)	-
Increase (decrease) in accounts payable	1,111	(22)
Cash provided by operating transactions	102,141	116,420
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	195,681	303,645
Purchase of investments	(251,911)	(362,131)
Cash applied to investing transactions	(56,230)	(58,486)
Transfers		
Other contributions	14	23
Transfers for Scholarships	(50,272)	(50,860)
Cash applied to transfers	(50,258)	(50,837)
(Decrease) increase in cash	(4,347)	7,097
Cash at beginning of year	13,719	6,622
Cash at end of year	$ 9,372	$ 13,719
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 9,372	$ 13,719

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (98%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2018

(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 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 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.

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.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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, timberland investments, 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.

f) CHANGES IN ACCOUNTING POLICY

Effective April 1, 2017, management implemented the following accounting standards required for government organizations with fiscal years beginning on or after April 1, 2017. The adoption of these standards was applied on a prospective basis and did not have an impact on the financial position or performance of the Fund.

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

g) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

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 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).

	Fair Value Hierarchy (a)				
Asset class	Level 1	Level 2	Level 3	**2018**	**2017**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 9,372	$ -	$ 9,372	$ 13,719
Bonds, mortgages and private debt	-	205,093	66,468	271,561	259,611
	-	214,465	66,468	280,933	273,330
Equities					
Canadian	83,496	5,464	21,398	110,358	117,444
Global developed	305,419	25,180	102,416	433,015	444,078
Emerging markets	47,090	3,488	12,068	62,646	58,539
Private	-	-	88,020	88,020	84,568
	436,005	34,132	223,902	694,039	704,629
Inflation sensitive					
Real estate	-	-	238,542	238,542	219,002
Infrastructure	-	-	117,199	117,199	88,163
Timberland	-	-	10,160	10,160	4,878
	-	-	365,901	365,901	312,043
Strategic, tactical and currency investments*	-	737	9,467	10,204	11,334
Total Fair Value of Investments	$ 436,005	$ 249,334	$ 665,738	$1,351,077	$ 1,301,336

* 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. This level includes publicly traded listed equity investments totalling $436,005 (2017: $434,452).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $249,334 (2017: $264,409). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Financial Information

NOTE 3 INVESTMENTS (in thousands) CONTINUED

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $665,738 (2017: $602,475).

Reconciliation of Level 3 Fair Value Measurements

	2018	2017
Balance, beginning of year	$ 602,475	$ 600,907
Unrealized gains (losses)	11,639	(2,868)
Purchases of Level 3 pooled fund units	125,619	202,092
Sale of Level 3 pooled fund units	(73,995)	(197,656)
Balance, end of year	$ 665,738	$ 602,475

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 timberland 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 and 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, Minister of Finance has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2018		2017	
Interest-bearing securities	15 - 45%	$ 280,933	20.8%	$ 273,330	21.0%
Equities	35 - 70%	694,039	51.4%	704,629	54.1%
Inflation sensitive	15 - 40%	365,901	27.1%	312,043	24.0%
Strategic, tactical and currency investments	(a)	10,204	0.7%	11,334	0.9%
		$ 1,351,077	100.0%	$ 1,301,336	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.

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.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	76.6%	80.1%
Speculative Grade (BB+ or lower)	0.5%	0.3%
Unrated	22.9%	19.6%
	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, 2018, the Fund's share of securities loaned under this program is $58,815 (2017: $71,920) and collateral held totals $62,832 (2017: $76,265). 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% (2017: 37%) of the Fund's investments, or $560,269 (2017: $486,909), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 21% (2017: 20%) and the Euro, 6% (2017: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.2% of total investments (2017: 3.7%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2018:

	($ thousands)			
	2018		2017	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 279,920	$ (27,992)	$ 259,133	$ (25,913)
Euro	77,394	(7,739)	55,617	(5,562)
British pound sterling	53,893	(5,389)	26,661	(2,666)
Japanese yen	36,872	(3,687)	36,171	(3,617)
Hong Kong dollar	17,155	(1,716)	14,415	(1,442)
Other foreign currency	95,035	(9,504)	94,912	(9,491)
Total foreign currency investments	$ 560,269	$ (56,027)	$ 486,909	$ (48,691)

(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 1.4% of total investments (2017: 1.3%).

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 6.2% of total investments (2017: 6.2%). 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, timberland, 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.

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	**2018**	**2017**
Contracts in favourable position (current credit exposure)	60	$ 10,877	$ 7,198
Contracts in unfavourable position	19	(19,474)	(4,793)
Net fair value of derivative contracts	79	$ (8,597)	$ 2,405

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 $10,877 (2017: $7,198) 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	**2018**	**2017**
Structured equity replication derivatives	$ (4,797)	$ 1,888
Foreign currency derivatives	(5,852)	(232)
Interest rate derivatives	1,772	186
Credit risk derivatives	280	563
Net fair value of derivative contracts	$ (8,597)	$ 2,405

i) Structured equity replication derivatives: Equity index swaps 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 index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: 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: 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) Deposits: At March 31, 2018 deposits in futures contracts margin accounts totalled $2,519 (2017: $1,264) and deposits as collateral for derivative contracts totalled $558 (2017: $250).

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	
	2018	**2017**
Accumulated net income from operations	$ 1,238,525	$ 1,124,221
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	20,993	20,979
Accumulated scholarship payments [(a)]	(787,190)	(736,918)
Accumulated surplus from operations	1,269,328	1,205,282
Accumulated net remeasurement gains	81,327	95,834
Carrying value of net financial assets	$ 1,350,655	$ 1,301,116

(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, Minister of Finance.

Financial Information

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2018	2017
Interest-bearing securities	$ 9,088	$ 15,883
Equities		
Canadian	6,306	9,762
Global	68,665	92,012
Private	8,819	13,313
	83,790	115,087
Inflation sensitive		
Real estate	17,627	21,622
Infrastructure	8,884	4,563
Timberland	684	399
	27,195	26,584
Strategic, tactical and currency investments	3,267	(1,106)
	$ 123,340	$ 156,448

The investment income includes realized gains and losses from disposal of pool units totalling $12,141 (2017: $31,878) and from directly held foreign exchange contracts totalling $224 (2017: $(123)). Income distributions from the pools total $110,975 (2017: $124,693).

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.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2018	2017
Amount charged by AIMCo for:		
Investment costs [a]	$ 7,253	$ 6,651
Performance based fees [a]	1,734	1,551
	8,987	8,202
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 9,036	$ 8,251
Increase in expenses	9.5%	1.5%
Increase in average investments under management	5.4%	3.9%
Increase in value of investments attributed to AIMCo	0.8%	0.9%
Investment expense as a percent of:		
Dollar earned	7.3%	5.3%
Dollar invested	0.7%	0.7%

(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]	2018	2017	5 years	10 years
Net return on investments [b]	7.9%	11.6%	10.5%	7.8%
Policy benchmark return [b]	7.1%	10.7%	9.7%	7.3%
Value added by AIMCo[c]	0.8%	0.9%	0.8%	0.5%

(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 reflected in the 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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Financial Information

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund, which comprise the statement of financial position as at March 31, 2018, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

(in thousands)

	2018	2017
Financial assets		
Investments (Note 3)	$ 1,148,122	$ 1,093,551
Receivable from sale of investments	644	-
	1,148,766	1,093,551
Liabilities		
Payable from purchase of investments	644	-
Net Financial Assets	$ 1,148,122	$ 1,093,551
Net financial assets (Note 5)		
Accumulated surplus from operations	$ 1,057,747	$ 988,565
Accumulated remeasurement gains	90,375	104,986
	$ 1,148,122	$ 1,093,551

Statement of Change in Net Financial Assets

Year Ended March 31, 2018

(in thousands)

	2018		2017
	Budget	Actual	Actual
Net operating surplus	$ 25,500	$ 69,182	$ 95,879
Net remeasurement losses		(14,611)	(15,217)
Increase in net financial assets		**54,571**	**80,662**
Net financial assets, beginning of year		1,093,551	1,012,889
Net financial assets, end of year		$ 1,148,122	$ 1,093,551

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2018

(in thousands)

	2018 Budget	2018 Actual	2017 Actual
Investment income (Note 6)	$ 68,155	$ 112,451	$ 138,626
Investment expenses (Note 7)	(7,155)	(7,769)	(7,447)
Net income from operations	61,000	104,682	131,179
Transfers for research and innovation (Note 5b)	(35,500)	(35,500)	(35,300)
Net operating surplus	**$ 25,500**	**69,182**	**95,879**
Accumulated operating surplus, beginning of year		988,565	892,686
Accumulated operating surplus, end of year		$ 1,057,747	$ 988,565

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2018

(in thousands)

	2018	2017
Unrealized (loss) gain on investments	$ (144)	$ 17,094
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(14,467)	(32,311)
Net remeasurement losses	**(14,611)**	**(15,217)**
Accumulated remeasurement gains, beginning of year	104,986	120,203
Accumulated remeasurement gains, end of year	$ 90,375	$ 104,986

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2018

(in thousands)

	2018	2017
Operating transactions		
Net income from operations	$ 104,682	$ 131,179
Non-cash items included in net income	(14,467)	(32,311)
	90,215	98,868
Increase in accounts receivable	(644)	-
Increase in accounts payable	644	-
Cash provided by operating transactions	90,215	98,868
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	170,073	261,259
Purchase of investments	(228,604)	(319,320)
Cash applied to investing transactions	(58,531)	(58,061)
Transfers		
Transfers for research and innovation	(35,500)	(35,300)
Cash applied to transfers	(35,500)	(35,300)
(Decrease) increase in cash	(3,816)	5,507
Cash at beginning of year	9,656	4,149
Cash at end of year	$ 5,840	$ 9,656
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 5,840	$ 9,656

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (98%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2018

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 Economic Development and Trade. 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 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 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.

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.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess 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),

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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, timberland investments, 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.

f) CHANGES IN ACCOUNTING POLICY

Effective April 1, 2017, management implemented the following accounting standards required for government organizations with fiscal years beginning on or after April 1, 2017. The adoption of these standards was applied on a prospective basis and did not have an impact on the financial position or performance of the Fund.

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

g) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standard:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of this standard on the financial statements.

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).

	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2018**	**2017**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 5,840	$ -	$ 5,840	$ 9,656
Bonds, mortgages and private debt	-	154,659	65,619	220,278	205,210
	-	160,499	65,619	226,118	214,866
Equities					
Canadian	70,977	4,642	18,190	93,809	98,764
Global developed	250,813	20,690	84,376	355,879	356,462
Emerging markets	39,960	2,959	10,241	53,160	46,560
Private	-	-	78,196	78,196	74,184
	361,750	28,291	191,003	581,044	575,970
Inflation sensitive					
Real estate	-	-	211,194	211,194	191,565
Infrastructure	-	-	95,037	95,037	79,842
Timberland	-	-	25,342	25,342	20,892
	-	-	331,573	331,573	292,299
Strategic, tactical and currency investments *	-	523	8,864	9,387	10,416
Total Fair Value of Investments	$ 361,750	$ 189,313	$ 597,059	$ 1,148,122	$ 1,093,551

* 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. This level includes publicly traded listed equity investments totalling $361,750 (2017: $351,186).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $189,313 (2017: $195,282). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $597,059 (2017: $547,083).

Reconciliation of Level 3 Investments

	2018	**2017**
Balance, beginning of year	$ 547,083	$ 552,807
Unrealized gains (losses)	12,598	(1,919)
Purchases of Level 3 pooled fund units	110,645	171,478
Sale of Level 3 pooled fund units	(73,267)	(175,283)
Balance, end of year	$ 597,059	$ 547,083

Financial Information

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 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 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 timberland 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 and 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, Minister of Finance has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2018		Actual Asset Mix 2017	
Interest-bearing securities	15 - 45%	$ 226,118	19.7%	$ 214,866	19.6%
Equities	35 - 70%	581,044	50.6%	575,970	52.7%
Inflation sensitive	15 - 40%	331,573	28.9%	292,299	26.7%
Strategic, tactical and currency investments	(a)	9,387	0.8%	10,416	1.0%
		$1,148,122	100.0%	$1,093,551	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.

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.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	72.3%	75.4%
Speculative Grade (BB+ or lower)	0.5%	0.2%
Unrated	27.2%	24.4%
	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 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, 2018, the Fund's share of securities loaned under this program is $46,853 (2017: $56,005) and collateral held totals $50,044 (2017: $59,425). 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% (2017: 36%) of the Fund's investments, or $477,555 (2017: $394,838), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2017: 19%) and the Euro, 6% (2017: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.2% of total investments (2017: 3.6%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2018:

	2018		2017	
Currency [a]	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	$ 233,291	$ (23,329)	$ 210,966	$ (21,097)
Euro	68,794	(6,879)	44,817	(4,482)
British pound sterling	49,860	(4,986)	21,388	(2,139)
Japanese yen	30,367	(3,037)	29,032	(2,903)
Hong Kong dollar	14,467	(1,447)	11,465	(1,146)
Other foreign currency	80,776	(8,078)	77,170	(7,717)
Total foreign currency investments	$ 477,555	$ (47,756)	$ 394,838	$ (39,484)

[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 1.3% of total investments (2017: 1.2%).

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 6.2% of total investments (2017: 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, timberland, 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 Innovation and Advanced Education and payables for 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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

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.

By counterparty	Number of counterparties	Fund's Indirect Share 2018	Fund's Indirect Share 2017
Contracts in net favourable position (current credit exposure)	60	$ 8,882	$ 5,612
Contracts in net unfavourable position	19	(16,613)	(4,133)
Net fair value of derivative contracts	79	$ (7,731)	$ 1,479

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 $8,882 (2017: $5,612) 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 2018	Fund's Indirect Share 2017
Structured equity replication derivatives	$ (3,986)	$ 1,577
Foreign currency derivatives	(5,311)	(665)
Interest rate derivatives	1,341	141
Credit risk derivatives	225	426
Net fair value of derivative contracts	$ (7,731)	$ 1,479

iv) Structured equity replication derivatives: 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 derivative. Rights, warrants, futures and options are also included as structured equity replication derivatives.
v) Foreign currency derivatives: 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.
vi) 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.
vii) Credit risk derivatives: 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.
viii)Deposits: At March 31, 2018 deposits in futures contracts margin accounts totalled $2,060 (2017: $1,035) and deposits as collateral for derivative contracts totalled $487 (2017: $199).

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	
	2018	2017
Accumulated net income from operations	$ 804,903	$ 700,221
Transfers from the General Revenue Fund [(a)]	721,430	721,430
Accumulated transfers for research and innovation [(b)]	(468,586)	(433,086)
Accumulated surplus from operations	1,057,747	988,565
Accumulated net remeasurement gains	90,375	104,986
Carrying value of net financial assets	$ 1,148,122	$ 1,093,551

(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 Economic Development and Trade (EDT), pay from the Endowment Fund to EDT, money that, in the opinion of the Alberta Research and Innovation Authority is required by EDT for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to EDT. Payments to EDT 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.

	2018
Spending limit for year ended March 31, 2018	$ 65,194
Transfers to EDT during 2017-18	(35,500)
Accumulated unused spending limit at March 31, 2018	29,694
4.5% of average market value on March 31, 2016-18	48,818
Spending limit for year ended March 31, 2019	$ 78,512

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2018	2017
Interest-bearing securities	$ 8,165	$ 13,761
Equities		
Canadian	5,406	8,533
Global	57,499	79,259
Private	6,192	10,651
	69,097	98,443
Inflation sensitive		
Real estate	16,774	20,627
Infrastructure	12,131	5,034
Timberland	3,106	1,713
	32,011	27,374
Strategic, tactical and currency investments	3,178	(952)
	$ 112,451	$ 138,626

Financial Information

Financial Information

NOTE 6 INVESTMENT INCOME (in thousands) CONTINUED

The investment income includes realized gains and losses from disposal of pool units totalling $14,074 (2017: $32,343) and from directly held currency foreign exchange contracts totalling $393 (2017: ($32)). Income distributions from the pools total $97,984 (2017: $106,315).

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.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2018	2017
Amounts charged by AIMCo for:		
Investment Costs[a]	$ 6,484	$ 5,989
Performance based fees[a]	1,236	1,409
	7,720	7,398
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 7,769	$ 7,447
Increase (decrease) in expenses	4.3%	(6.4%)
Increase in average investments under management	6.4%	5.1%
Increase in value of investments attributable to AIMCo	1.1%	0.9%
Investment expenses as a percent of:		
Dollar earned	6.9%	5.4%
Dollar invested	0.7%	0.7%

(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.

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]	**2018**	**2017**	**5 years**	**10 years**
Net return on investments [b]	8.3%	11.5%	10.8%	7.8%
Policy benchmark return [b]	7.2%	10.6%	9.6%	7.2%
Value added by investment manager [c]	1.1%	0.9%	1.2%	0.6%

(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 reflected in the 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 LOTTERY FUND

Financial Statements

Year Ended March 31, 2018

Independent Auditor's Report

Auditor General
OF ALBERTA

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Lottery Fund, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Lottery Fund as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 24, 2018

Edmonton, Alberta

Statement of Financial Position

As at March 31
(in thousands of dollars)

	Note		2018		2017
Financial Assets					
Cash and cash equivalents	3	$	25,920	$	37,563
Due from Alberta Gaming and Liquor Commission	5		58,144		59,045
			84,064		96,608
Liabilities					
Accounts payable	6	$	31,289	$	43,833
			31,289		43,833
Net Financial Assets		$	52,775	$	52,775
Net Assets		$	52,775	$	52,775

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[Original signed by]

Barbara Ritzen
Audit Committee Chair
Alberta Gaming and Liquor Commission

MANAGEMENT

[Original signed by]

Alain Maisonneuve
President and Chief Executive Officer
Alberta Gaming and Liquor Commission

Statement of Operations

For the year ended March 31
(in thousands of dollars)

	Note	Budget 2018	2018	2017
Revenues				
Net income from Provincial Lotteries	7	$ 1,445,144	$ 1,416,872	$ 1,429,604
Interest		400	746	636
		1,445,544	1,417,618	1,430,240
Expenses				
Lottery Fund expenditures		1,445,544	1,417,618	1,430,240
		1,445,544	1,417,618	1,430,240
Annual Surplus		$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Change in Net Financial Assets

For the year ended March 31
(in thousands of dollars)

	Budget 2018	2018	2017
Annual surplus	$ -	$ -	$ -
Net financial assets, beginning of year	52,775	52,775	52,775
Net Financial Assets, end of year	$ 52,775	$ 52,775	$ 52,775

The accompanying notes are 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 Lottery Fund (Lottery Fund) is administered by the Alberta Gaming and Liquor Commission (AGLC) under the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. The Lottery Fund receives proceeds from Provincial Lotteries and makes transfers therefrom in the public interest in order to support thousands of volunteer, public and community-based initiatives.

The *Appropriation Act, 2017* authorizes transfers from the Lottery Fund as presented in the 2017-2018 Estimates, and provides for flexibility in the amount allocated from the Lottery Fund to the General Revenue Fund so that the annual surplus of the Lottery Fund would be zero at the year ended March 31, 2018.

The transfer of funds to certain programs is based on electronic gaming proceeds generated at related gaming facilities, in accordance with government policy direction. For these programs, the amount transferred may differ from the budgeted amount.

The accountability and utilization of Lottery Fund amounts transferred to entities within the Government of Alberta may be determined and confirmed by referencing the respective entity's financial statements.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

a. Cash Flow

A Statement of Cash Flow is not provided as disclosure in these financial statements is considered to be adequate.

b. Financial Assets and Liabilities

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

The fair values of accounts receivable and accounts payable are estimated to approximate their carrying values, because of the short term nature of these instruments.

c. Financial Instruments

As the Lottery Fund 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 re-measurement gains and losses and therefore a Statement of Remeasurement Gains and Losses has not been presented.

d. 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 management reasonably expects to be applicable at a future date.

> PSAS 3430 *Restructuring Transactions* – Issued in June of 2015, mandatorily effective for annual reporting periods commencing on or after April 1, 2018, with early adoption permitted. The Standard provides guidance on how to account for and report restructuring transactions by both transferor and recipient of assets and/or liabilities, together with related program or operating responsibilities. The AGLC will follow the standard for any restructuring transactions on or after April 1, 2018.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors, while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of 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, 2018, securities held by the CCITF had a time-weighted return of 1.1% per annum (March 31, 2017: 0.9% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

4. Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's consolidated financial statements.

Related parties also include AGLC executive management and their close family members.

All the transactions, except for interest revenue, of the Lottery Fund are considered related party transactions.

5. Due from Alberta Gaming and Liquor Commission

This amount represents the portion of net income from Provincial Lotteries which has not been transferred by the AGLC to the Lottery Fund at year end due to timing of transfers.

	2018	2017
Due from AGLC, beginning of year	$ 59,045	$ 71,316
Net income allocation to Alberta Lottery Fund	1,416,872	1,429,604
Transfers from AGLC	(1,417,773)	(1,441,875)
Due from AGLC, end of year	$ 58,144	$ 59,045

Amounts due from AGLC are unsecured, non-interest bearing and have no specific terms of repayment.

6. Accounts Payable

Accounts payable consists primarily of outstanding payments to the Department of Treasury Board and Finance.

7. Net Income from Provincial Lotteries

Net income from Provincial Lotteries received by the AGLC is recorded as revenue of the Lottery Fund.

	2018	2017
Net revenue from Provincial Lotteries	$ 1,305,429	$ 1,301,640
Operating expenses	(185,405)	(185,893)
Profit from operations	1,120,024	1,115,747
Other revenue	(1,982)	(1,654)
AGLC's share of income from Western Canada Lottery Corporation	298,830	315,511
Net income from Provincial Lotteries	$ 1,416,872	$ 1,429,604

8. Budget

The 2018 budgeted expenditures were authorized in total by the *Appropriation Act, 2017* on May 4, 2017.

9. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

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ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Risk Management Fund, which comprise the statement of financial position as at March 31, 2018, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Risk Management Fund as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, its change from net debt to net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands) 2018	2017
Financial Assets		
Cash and cash equivalents (Note 3)	$ 2,981	$ 1,811
Investments (Note 3)	71,035	64,111
Receivable from Province of Alberta	7	10
Accrued recoveries (Note 5)	14	29
	74,037	65,961
Liabilities		
Accounts payable (Note 6)	568	360
Liability for accrued claims (Note 7)	59,479	67,332
	60,047	67,692
Net Financial Assets (Net Debt)	13,990	(1,731)
Net Assets (Net Debt)		
Accumulated surplus from operations	17,483	828
Accumulated remeasurement losses	(3,493)	(2,559)
	$ 13,990	$ (1,731)

Contractual obligations (Note 9)

The accompanying notes are part of these financial statements.

Statement of Change in Net Financial Assets

Year ended March 31, 2018

	($ thousands) 2018 Budget	2018 Actual	2017 Actual
Annual Surplus (deficit)	$ (732)	$ 16,655	$ (7,025)
Net remeasurement losses		(934)	(1,526)
Increase (Decrease) in Net Financial Assets		15,721	(8,551)
(Net debt) net financial assets, beginning of year		(1,731)	6,820
Net Financial Assets (Net Debt), End of Year		$ 13,990	$ (1,731)

The accompanying notes are part of these financial statements.

Financial Information

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
	($ thousands)		
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 15,810	$ 16,522	$ 16,319
Other entities	1,390	807	792
Subrogation and salvage	300	306	435
Recoveries	-	8,048	326
Investment income	1,420	972	2,365
	18,920	26,655	20,237
Expenses			
Insurance claims (Note 8)	13,414	3,743	21,180
Insurance premiums to insurers	3,650	3,827	3,559
Administration	1,753	1,771	1,825
Investment expenses	-	48	24
Other services	835	611	674
	19,652	10,000	27,262
Annual surplus (deficit)	$ (732)	16,655	(7,025)
Net financial Assets beginning of year		828	7,853
Accumulated surplus at end of year		$ 17,483	$ 828

The accompanying notes are part of these financial statements.

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2018

	2018	2017
	($ thousands)	
Unrealized losses on investments	$ (1,345)	$ (1,795)
Realized loss on investments	411	269
Net remeasurement losses	(934)	(1,526)
Accumulated remeasurement losses, beginning of year	(2,559)	(1,033)
Accumulated remeasurement losses, end of year	$ (3,493)	$ (2,559)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2018

	2018 ($ thousands)	2017 ($ thousands)
Operating Transactions		
Annual surplus (deficit)	$ 16,655	$ (7,025)
Realized losses on disposal of investments	411	269
Decrease (Increase) in accrued recoveries	15	(22)
Decrease in receivables from Province of Alberta	3	5
Increase in payables	208	20
(Decrease) increase in liabilities for accrued claims	(7,853)	12,794
Cash provided by operating transactions	9,439	6,041
Investing Transactions		
Purchase of investments	(18,269)	(15,610)
Proceeds from disposals and repayments	10,000	9,048
Cash applied to investing transactions	(8,269)	(6,562)
Increase (Decrease) in Cash and Cash Equivalents	1,170	(521)
Cash and Cash Equivalents, Beginning of Year	1,811	2,332
Cash and Cash Equivalents, End of Year	$ 2,981	$ 1,811
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 2,981	$ 1,811

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2018

(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 government transfers and operating revenues to (net debt) net assets resulting from settlement of 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 7b).

Liability for accrued claims, recorded as $59.5 million (2017: $67.3 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 $80.2 million as at March 31, 2018 or $20.1 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 7b). 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) All revenues are reported using the accrual method of accounting.

g) The Fund's investment portfolio is recorded at fair value (see Note 3). Investments are recognized on a trade date basis.

h) Investment expenses include all amounts charged by the Fund's investment manager, Alberta Investment Management Corporation (AIMCo). Investment expenses are recognized on an accrual basis. Transaction costs are expensed as they are incurred.

i) Accumulated remeasurement gains are unrealized and represent the difference between the fair value and the cost of investments. 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.

a) CHANGE IN ACCOUNTING POLICY

The department has prospectively adopted the following standards from April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights which are reflected as applicable.

b) FUTURE ACCOUNTING CHANGES

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

PS 3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

PS 3280 Asset Retirement Obligations (effective April 1, 2021)

Effective April 1, 2021, this standard provided guidance on how to account for and report a liability for retirement of tangible capital assets.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 CASH AND INVESTMENTS

	($ thousands)	
	2018	2017
Cash and Cash Equivalents		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 2,981	$ 1,811
Investments		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 7	$ 6
General Revenue Short-Term Bond Fund	71,028	64,105
Total investments [(b) (c)]	$ 71,035	$ 64,111

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, 2018, securities held by the CCITF have a time-weighted return of 1.1% (2017: 0.9%).

b) 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.

c) 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. For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

NOTE 4 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 3 is directly or indirectly impacted by credit risk to some degree. 100% (2017: 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, 2018, the Fund's share of securities loaned under this program is $24,811 (2017: $24,871) and collateral held totals $26,829 (2017: $26,259). 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 2.9% of total investments (2017: 2.9%).

NOTE 5 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 6 ACCOUNTS PAYABLE

	($ thousands) 2018	2017
Payable to Department of Treasury Board and Finance	$ 122	$ 110
Other	446	250
	$ 568	$ 360

NOTE 7 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $59,479 (2017: $67,332) 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, 2018 was carried out by J. S. Cheng & Partners Inc. taking into account the historical claims through March 31, 2018.

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 2.115% (2017: 0.863%).

	2018	2017
Trend rate		
General liability	2.0%	2.0%
Automobile liability	2.0%	2.0%
Property	2.0%	2.0%
Auto physical damage	3.7%	4.0%

Loss development factor

Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada

	2018	2017
Selected loss rate		
General liability: *Loss per person (Alberta population)*	$ 1.15	$ 1.24
Automobile liability: *Loss per vehicle*	$ 105	$ 105
Property: *Loss per $million property values*	$ 550	$ 550
Auto physical damage: *Loss per vehicle*	$ 250	$ 250

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2018:

Sensitivity Tests	Increase (Decrease) in Net Liabilities *($ million)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 9.6
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 11%, depending on coverage type.	$ 20.6
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ (9.1)

NOTE 8 INSURANCE CLAIMS

	($ thousands) 2018	2017
Total claims payments during the year	$ 11,596	$ 8,386
Change in claims reserves	(7,853)	12,794
	$ 3,743	$ 21,180

NOTE 9 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2018 are as follows:

	($ thousands)
2018-19	257
2019-20	87
2020-21	60
	$ 404

NOTE 10 RELATED PARTY TRANSACTIONS

As disclosed in the financial statements, the Fund has revenues from the Province of Alberta departments, funds, and agencies of $16,522 (2017: $16,319) and an accounts payable to the Department of Treasury Board and Finance of $122 (2017: $108).

NOTE 11 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

Year Ended March 31, 2018

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statement of financial position as at March 31, 2018, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2018, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	2018	2017
	($ thousands)	
Assets		
Investments (Note 3)	$ 205,805	$ 189,715
	205,805	189,715
Liabilities		
Accounts payable - owing to CRA	9,126	-
	196,679	189,715
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	196,679	189,715
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2018

	2018	2017
	($ thousands)	
Increase in assets		
Employer contributions	$ 9,937	$ 10,063
Investment income (Note 5)	11,716	18,370
	21,653	28,433
Decrease in assets		
Investment expenses (Note 7)	822	774
Interest Expenses	1,146	-
Accrued transfer of refundable tax to CRA	7,981	-
Transfers to Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	4,740	2,803
	14,689	3,577
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(6,964)	(24,856)
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, 2018

(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) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) 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 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 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.

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.

d) 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.

e) 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.

f) LIABILITIES

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

As at March 31, 2018, 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, 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 $2,235 (in 2017 annual payment was retroactively adjusted to: $2,235) 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.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund's private investments, hedge funds and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve Fund's private investments, hedge funds 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 Reserve Fund's 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 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).

Asset class	Fair Value Hierarchy [a] ($ thousands) Level 1	Level 2	Level 3	2018	2017
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 5,652	$ -	$ 5,652	$ 4,083
Bonds and mortgages	-	78,313	6,337	84,650	76,408
	-	83,965	6,337	90,302	80,491
Public equity					
Canadian	21,954	1,313	5,609	28,876	28,474
Global developed	36,848	3,021	12,036	51,905	50,833
	58,802	4,334	17,645	80,781	79,307
Alternatives					
Real estate	-	-	22,897	22,897	21,640
Infrastructure	-	-	9,189	9,189	6,456
Timberland	-	-	933	933	2
	-	-	33,019	33,019	28,098
Strategic and currency investments*	-	(3)	1,706	1,703	1,819
Total investments	$ 58,802	$ 88,296	$ 58,707	$ 205,805	$ 189,715

* 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. This level includes publicly traded listed equity investments totalling $58,802 (2017: $56,465).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $88,296 (2017: $81,176). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and certain alternative investments totalling $58,707 (2017: $52,074).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2018	2017
Balance, beginning of year	$ 52,074	$ 46,863
Investment income *	3,789	5,936
Purchases of Level 3 pooled fund units	8,284	18,206
Sale of Level 3 pooled fund units	(5,440)	(18,931)
Balance, end of year	$ 58,707	$ 52,074

* Investment income includes unrealized gains of $1,671 (2017: $29).

NOTE 3 INVESTMENTS 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.
- ***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. The fair value of infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for infrastructure investments 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.
- ***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 and 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.

Financial Information

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 2018 ($ thousands)	2018 %	Actual Asset Mix 2017 ($ thousands)	2017 %
Interest-bearing securities	30 - 50%	$ 90,302	43.9	$ 80,491	42.4
Public equities	30 - 50%	80,781	39.3	79,307	41.8
Alternatives	15 - 30%	33,019	16.0	28,098	14.8
Strategic and currency investments	(a)	1,703	0.8	1,819	1.0
		$ 205,805	100.0	$ 189,715	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 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.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Reserve Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	91.7%	93.0%
Speculative Grade (BB+ or lower)	0.6%	0.3%
Unrated	7.7%	6.7%
	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 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, 2018, The Reserve Fund's share of securities loaned under this program is $14,212 (2017: $14,686) and collateral held totals $15,214 (2017: $15,466). 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% (2017: 26%) of the Reserve Fund's investments, or $50,830 (2017: $49,339), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 13% (2017: 14%) and the Euro, 3% (2017: 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 2.5% (2017: 2.6%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2018:

	($ thousands)			
	2018		2017	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 26,482	$ (2,648)	$ 26,084	$ (2,608)
Euro	5,514	(551)	5,756	(576)
Japanese yen	3,817	(382)	3,617	(362)
British pound	2,750	(275)	2,649	(265)
Other foreign currencies	12,267	(1,227)	11,233	(1,123)
Total foreign currency investments	$ 50,830	$ (5,083)	$ 49,339	$ (4,934)

(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 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 2.9% (2017: 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% (2017: 4.6%). 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, timberland, 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.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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	**2018**	**2017**
Contracts in favourable position (current credit exposure)	57	$ 1,995	$ 1,115
Contracts in unfavourable position	20	(2,524)	(636)
Net fair value of derivative contracts	77	$ (529)	$ 479

(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 $1,995 (2017: $1,115) 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.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2018**	**2017**
Structured equity replication derivatives	$ (473)	$ 294
Foreign currency derivatives	(777)	(3)
Interest rate derivatives	662	44
Credit risk derivatives	59	144
Net fair value of derivative contracts	$ (529)	$ 479

(i) Structured equity replication derivatives: Equity index swaps 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 index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: 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: 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) Deposits: At March 31, 2018 deposits in futures contracts margin accounts totalled $524 (2017: $187) and deposits as collateral for derivative contracts totalled $54 (2017: $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	2018 Total	2017 Total
Interest-bearing securities	$ 3,060	$ (1,493)	$ 1,567	$ 2,537
Public equities				
Canadian	1,322	(382)	940	4,309
Foreign	6,722	(278)	6,444	9,858
	8,044	(660)	7,384	14,167
Alternatives				
Real estate	742	1,139	1,881	1,283
Infrastructure	613	(35)	578	325
Timberland	(8)	7	(1)	-
	1,347	1,111	2,458	1,608
Strategic and currency investments	361	(54)	307	58
	$ 12,812	$ (1,096)	$ 11,716	$ 18,370

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 $668 and $(1,782) respectively (2017: $1,940 and $2,429 respectively). Realized and unrealized gains and losses on currency hedges total $26 and $(8) respectively (2017: $(26) and $33 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, 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 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2018	2017	2016	2015	2014
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	4.7	8.9	0.0	12.8	12.7
Value added (lost) by AIMCo	1.0	1.5	1.0	(0.1)	1.3
Total return on investments [(a)]	**5.7**	**10.4**	**1.0**	**12.7**	**14.0**

(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 8.7% (PBR: 7.7%) and ten years is 6.5% (PBR: 6.0%).

Financial Information

NOTE 7 INVESTMENT EXPENSES

	($ thousands) 2018	2017
Amounts charged by AIMCo for:		
Investment costs [a]	$ 699	$ 629
Performance based fees [a]	123	145
Total investment expenses	$ 822	$ 774
Increase in expenses	6.2%	15.5%
Increase in average investments under management	11.5%	11.0%
Increase in value of investments attributed to AIMCo	1.0%	1.5%
Investment expense as a percent of:		
Dollar earned	7.0%	4.2%
Dollar invested	0.4%	0.4%
Investment expenses per member	$ 3,022	$ 2,846

[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, 2017 by Aon Hewitt and was then extrapolated to March 31, 2018.

As at March 31, 2018 the Unregistered Plan reported an actuarial deficit of $9 million (2017: $16 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the statement of financial position as at March 31, 2018, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2018, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands) 2018	2017
Assets		
Investments (Note 3)	$ 130,736	$ 119,168
Receivable from participating employers	7	-
Receivable from sale of investments	12	-
	130,755	119,168
Liabilities		
Accounts payable	12	-
	130,743	119,168
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(130,743)	(119,168)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2018

	($ thousands) 2018	2017
Increase in assets		
Employer contributions	$ 2,723	$ 2,886
Investment income (Note 5)	9,571	14,646
Transfer from Supplementary Retirement Plan for Public Service Managers	-	-
	12,294	17,532
Decrease in assets		
Investment expenses (Note 7)	718	668
	718	668
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(11,576)	(16,864)
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, 2018

*(**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) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) 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 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 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.

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.

d) 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.

e) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the participating employers. Contribution rates are set by the Minister of Finance, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2018 was 9.9% (2017: 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.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund's private investments, hedge funds, timberland and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve Fund's private investments, hedge funds, timberland 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 Reserve Fund's 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 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).

	($ thousands)				
	Fair Value Hierarchy [a]			2018	2017
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits in CCITF	$ -	$ 602	$ -	$ 602	$ 1,079
Bonds, mortgages and private debt	-	25,359	4,893	30,252	23,097
	-	25,961	4,893	30,854	24,176
Equities					
Canadian	16,044	1,012	4,112	21,168	21,224
Global	35,475	2,898	11,711	50,084	47,363
Private	-	-	2,381	2,381	2,699
	51,519	3,910	18,204	73,633	71,286
Alternatives					
Real estate	-	-	14,342	14,342	13,607
Infrastructure	-	-	7,615	7,615	6,588
Timberland	-	-	2,029	2,029	1,077
	-	-	23,986	23,986	21,272
Strategic, tactical and currency investments *	-	94	2,169	2,263	2,434
Total investments	$ 51,519	$ 29,965	$ 49,252	$ 130,736	$ 119,168

* 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, 2018, investments were allocated to various asset classes, with interest bearing securities comprising 23.6% (2017: 20.3%) of total investments, equities comprising 56.3% (2017: 59.8%), alternatives comprising 18.4% (2017: 17.9%) and strategic opportunities, tactical and currency investments comprising 1.7% (2017: 2.0%).

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. This level includes publicly traded listed equity investments totalling $51,519 (2017: $48,318).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $29,965 (2017: $25,530). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and alternative investments totalling $49,252 (2017: $45,320).

NOTE 3 INVESTMENTS CONTINUED

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2018	2017
Balance, beginning of year	$ 45,320	$ 43,418
Investment income *	3,471	5,424
Purchases of Level 3 pooled fund units	6,096	15,174
Sale of Level 3 pooled fund units	(5,635)	(18,696)
Balance, end of year	**$ 49,252**	**$ 45,320**

* Investment income includes unrealized gains (losses) of $1,379 (2017: $(468)).

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 timberland 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.

- ***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 and 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.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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.

The following table summarizes the Reserve Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	82.9%	83.9%
Speculative Grade (BB+ or lower)	0.5%	0.2%
Unrated	16.6%	15.9%
	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 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, 2018, the Reserve Fund's share of securities loaned under this program is $7,071 (2017: $7,506) and collateral held totals $7,554 (2017: $7,964). 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 38% (2017: 40%) of the Reserve Fund's investments, or $50,098 (2017: $47,570), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2017: 22%) and the Euro, 4% (2017: 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 Reserve Fund would be approximately 3.8% (2017: 4.0%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2018:

	($ thousands)			
	2018		**2017**	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 26,700	$ (2,670)	$ 25,702	$ (2,570)
Euro	5,608	(561)	5,451	(545)
Japanese yen	3,928	(393)	3,497	(350)
British pound	2,820	(282)	2,578	(258)
Brazilian real	1,655	(165)	1,350	(135)
Hong Kong dollar	1,365	(137)	1,117	(112)
Other foreign currencies	8,022	(802)	7,875	(787)
Total foreign currency investments	$ 50,098	$ (5,010)	$ 47,570	$ (4,757)

(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 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 1.7% (2017: 1.4%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 6.9% (2017: 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, timberland, 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	**2018**	**2017**
Contracts in favourable position (current credit exposure)	59	$ 1,309	$ 830
Contracts in unfavourable position	20	(2,135)	(513)
Net fair value of derivative contracts	79	$ (826)	$ 317

(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 $1,309 (2017: $830) 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) 2018	2017
Structured equity replication derivatives	$ (479)	$ 284
Foreign currency derivatives	(600)	(40)
Interest rate derivatives	219	18
Credit risk derivatives	34	55
Net fair value of derivative contracts	$ (826)	$ 317

(i) Structured equity replication derivatives: Equity index swaps 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 index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: 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: 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) Deposits: At March 31, 2018 deposits in futures contracts margin accounts totalled $290 (2017: $137) and deposits as collateral for derivative contracts totalled $93 (2017: $23).

NOTE 5 INVESTMENT INCOME

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

	Income	Changes in Fair Value	2018 Total	2017 Total
	($ thousands)			
Interest bearing securities	$ 1,000	$ (468)	$ 532	$ 688
Equities				
Canadian	968	(287)	681	3,218
Global	6,250	(211)	6,039	9,247
Private	6	112	118	93
	7,224	(386)	6,838	12,558
Alternatives				
Real estate	466	716	1,182	808
Infrastructure	578	(104)	474	427
Timberland	106	91	197	130
	1,150	703	1,853	1,365
Strategic, tactical and currency investments	494	(146)	348	35
	$ 9,868	$ (297)	$ 9,571	$ 14,646

NOTE 5 INVESTMENT INCOME CONTINUED

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 $779 and $(1,034) respectively (2017: $2,055 and $2,516 respectively). Realized and unrealized gains and losses on currency hedges total $(41) and $(1) respectively (2017: $(111) and $113 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, 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 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2018	2017	2016	2015	2014
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	5.6	10.4	(0.7)	14.0	13.6
Value added (lost) by AIMCo	0.9	1.3	2.2	(1.1)	0.5
Total return on investments [a]	**6.5**	**11.7**	**1.5**	**12.9**	**14.1**

[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 9.2% (PBR: 8.4%) and ten years is 7.1% (PBR: 6.8%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2018	**2017**
Amounts charged by AIMCo for:		
Investment costs [a]	$ 562	$ 521
Performance based fees [a]	156	147
Total investment expenses	$ 718	$ 668
Increase in expenses	7.5%	8.8%
Increase in average investments under management	12.8%	11.2%
Increase in value of investments attributed to AIMCo	0.9%	1.3%
Investment expense as a percent of:		
Dollar earned	7.5%	4.6%
Dollar invested	0.6%	0.6%
Investment expenses per member	$ 307	$ 284

[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, 2016 by Aon Hewitt. and was then extrapolated to December 31, 2017.

As at December 31, 2017 the SRP reported an actuarial deficit of $55 million (2016: deficit of $50.0 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2018 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

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Provincial Agencies and Other Government Organizations

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

December 31, 2017

These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2017 Annual Report. A complete copy of the ACFA Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ACFA website at www.acfa.gov.ab.ca.

Independent Auditor's Report

Auditor General OF ALBERTA

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements
I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statement of financial position as at December 31, 2017, and the statements of operations and accumulated operating surplus, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2017, and the results of its operations, its remeasurement gains and losses, changes in its net financial debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General
March 21, 2018
Edmonton, Alberta

Statement Of Financial Position

As at December 31, 2017 *(in thousands of dollars)*	2017	2016
Assets		
Cash (Note 3)	$ 47,928	$ 13,349
Restricted cash (Note 3)	13,297	497
Accounts receivable	309	88
Accrued interest receivable on loans to local authorities	98,414	102,603
Loans to local authorities (Note 4)	15,612,182	15,566,824
Derivatives in favourable position (Note 6)	628,878	969,539
	16,401,008	**16,652,900**
Liabilities		
Accounts payable	574	560
Accrued interest payable on debt	40,558	35,896
Debt (Note 5, Schedule 1)	15,277,791	15,406,108
Derivatives in unfavourable position (Note 6)	1,217,242	1,660,746
	16,536,165	17,103,310
Net financial debt	**(135,157)**	**(450,410)**
Non-financial assets		
Tangible capital assets (Net of accumulated amortization $12; 2016 - $8)	14	18
	14	18
Accumulated deficit	**$ (135,143)**	**$ (450,392)**
Accumulated deficit is comprised of:		
Share capital, issued and fully paid (Note 7)	63	63
Accumulated operating surplus (Note 8)	447,721	405,406
Accumulated remeasurement losses	(582,927)	(855,861)
Share capital and accumulated deficit	**$ (135,143)**	**$ (450,392)**

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 by the Audit Committee and approved by the Board of Directors.

[Original signed by Bernadiene Hsie, Vice President, Senior Financial Officer]

[Original signed by Ronald Ritter, Chair of Audit Committee]

Statement Of Operations And Accumulated Operating Surplus

For the year ended December 31, 2017
(in thousands of dollars)

	Budget (Note 13)	2017	2016
Interest income			
Loans	$ 587,179	$ 578,917	$ 579,025
Loan swaps (pay fixed, receive floating)	(354,750)	(308,459)	(343,218)
Investments	1,110	2,466	2,066
	233,539	272,924	237,873
Interest expense			
Debt	356,481	349,655	342,517
Debt swaps (receive fixed, pay floating)	(192,473)	(143,892)	(183,838)
Amortization of net discounts on debt	20,470	20,053	20,704
Amortization of commission fees	4,248	3,910	4,101
	188,726	229,726	183,484
Net interest income	**44,813**	**43,198**	**54,389**
Other income			
Realized gains on derivatives (Note 11 (g))	-	181,200	-
Realized losses on foreign exchange (Note 11 (g))	-	(181,200)	-
Loan prepayment fees (Note 6)	-	188	339
	-	188	339
Net interest income and other income	**44,813**	**43,386**	**54,728**
Non-interest expenses			
Administration and office expenses (Note 9, 10)	1,103	1,067	1,045
Amortization of tangible capital assets	4	4	4
Non-interest and other expenses	1,107	1,071	1,049
Operating surplus	43,706	42,315	53,679
Accumulated operating surplus, beginning of year	408,564	405,406	351,727
Accumulated operating surplus, end of year	**$ 452,270**	**447,721**	**405,406**

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

Statement Of Remeasurement Gains And Losses

For the year ended December 31, 2017 *(in thousands of dollars)*	2017	2016
Derivatives		
Accumulated remeasurement losses on derivatives, beginning of year	$ (652,304)	$ (603,141)
Unrealized gains (losses) - fair value of derivatives	276,857	(49,163)
Realized (gains) – reclassified to statement of operations (Note 11(g))	(181,200)	-
Net remeasurement gains (losses) on derivatives, end of year	95,657	(49,163)
Accumulated remeasurement losses on derivatives, end of year	**(556,647)**	**(652,304)**
Foreign Exchange		
Accumulated remeasurement losses on foreign exchange, beginning of year	(203,557)	(214,734)
Unrealized (losses) gains – foreign currency translation	(3,923)	11,177
Realized losses – reclassified to statement of operations (Note 11(g))	181,200	-
Net remeasurement gains on foreign exchange for the year	177,277	11,177
Accumulated remeasurement losses on foreign exchange, end of year	**(26,280)**	**(203,557)**
Accumulated remeasurement losses, end of year	**$ (582,927)**	**$ (855,861)**

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

Statement Of Cash Flows

For the year ended December 31, 2017 *(in thousands of dollars)*	2017	2016
Operating Activities		
Interest received		
Loans	$ 583,107	$ 581,933
Investments	2,242	2,014
Debt swaps (receive fixed, pay floating)	150,262	184,075
Loan prepayment fees	188	339
Interest paid		
Debt	(344,994)	(336,655)
Discounts paid at debt maturity	(23,014)	(17,545)
Premiums received at debt issue	3,174	-
Commission fees	(7,005)	(1,350)
Loan swaps (pay fixed, receive floating)	(322,014)	(348,291)
Posted cash collateral	(12,800)	-
Administration and office expenses	(1,051)	(1,069)
Cash flows from operating activities	**28,095**	**63,451**
Investing Activities		
Loan principal repayments	1,220,000	1,110,323
Loans issued	(1,265,358)	(1,577,469)
Cash flows used in investing activities	**(45,358)**	**(467,146)**
Financing Activities		
Debt issued	11,688,228	12,578,684
Debt redemption	(11,817,586)	(12,332,455)
Proceeds on maturity of cross currency swap	181,200	-
Cash flows from financing activities	**51,842**	**246,229**
Net increase (decrease) in cash	34,579	(157,466)
Cash, beginning of year	13,349	170,815
Cash, end of year	**$ 47,928**	**$ 13,349**

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

Notes To The Financial Statements

December 31, 2017 *(in thousands of dollars, except share amounts)*

NOTE 1 – AUTHORITY

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

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.

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.

Notes To The Financial Statements

Financial Information

(b) Valuation of Financial Instruments (Continued)

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, 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.

Notes To The Financial Statements

(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 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.

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. These 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.

Notes To The Financial Statements

(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 year end rate of exchange. 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 on an entity's ability to finance its activities and meet its liabilities and commitments.

NOTE 3 – CASH

	2017	2016
Cash	**$ 47,928**	**$ 13,349**
Uncashed coupons and cheques	**$ 497**	**$ 497**
Posted Cash Collateral	**$ 12,800**	**$ -**
Restricted cash	**$ 13,297**	**$ 497**

Cash in ACFA's operating account and uncashed coupons and cheques earns interest as part of the Province of Alberta's CCITF. Uncashed coupons and cheques cash is set aside for outstanding debt obligations on unredeemed coupons, bonds. For the year ended December 31, 2017, deposits in CCITF had a time-weighted return of 0.92% per annum (2016 – 0.89% per annum). Cash Collateral is posted to counterparties when ACFA has exceeded established thresholds of net unfavourable positions with counterparties under the Credit Support Annex (CSA) Agreements as described in Note 6. Posted Cash Collateral earns interest as prescribed by the CSA Agreements.

Notes To The Financial Statements

NOTE 4 – LOANS TO LOCAL AUTHORITIES

	2017		2016	
Municipal authorities, regional services commissions, and Métis settlements	$ 10,260,564	66%	$10,333,808	67%
Regional airport authorities	3,844,352	25%	3,765,793	24%
Educational and health authorities	1,507,266	9%	1,467,223	9%
Amortized cost	**$15,612,182**	**100%**	**$15,566,824**	**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 for any reason;

the loan must be approved by the Board of Directors, who may consider the loan application on the recommendation of the President. 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, regional services commissions and Metis settlements account for a majority of loan assets held by ACFA. This borrower category, excluding Metis settlements, 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 at and for the year ended December 31, 2017, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. 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 (d).

Notes To The Financial Statements

NOTE 5 – DEBT

	2017	2016
Contractual principal	$ 15,338,330	$ 15,459,681 (c)
Unamortized net discounts	(41,741)	(37,871)
Unamortized commission fees	(18,798)	(15,702)
	$ 15,277,791	**$ 15,406,108**

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).

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:

	Short-term	Floating	Fixed	Total
2018	$ 1,930,000	$ 1,000,000	$ 600,000	$ 3,530,000
2019	-	-	275,000	275,000
2020	-	480,000	1,322,367	1,802,367
2021	-	-	1,102,465 (a)	1,102,465
2022	-	-	1,720,000	1,720,000
	1,930,000	1,480,000	5,019,832	8,429,832
Thereafter	-	-	6,908,498 (b)	6,908,498
	$ 1,930,000	**$ 1,480,000**	**$11,928,330**	**$ 15,338,330**

NOTES

a. £650,000 GBP ($1,102,465 CAD) fixed term debt maturing November 15, 2021 translated at the foreign exchange rate at the reporting date.

b. Includes $600,000 USD ($752,700 CAD) fixed term debt maturing August 17, 2026, $175,000 AUD ($171,517 CAD) fixed term debt maturing December 14, 2026, $310,000 AUD ($303,831 CAD) fixed term debt maturing April 11, 2028, and € 225,000 EUR ($338,670 CAD) fixed term debt maturing December 1, 2043 translated at the foreign exchange rates at the reporting date.

c. Includes the following foreign currency debt translated at the foreign exchange rates as at December 31, 2016: $125,000 AUD ($121,338 CAD) fixed term debt maturing December 14, 2026, €175,000 EUR ($247,957 CAD) fixed term debt maturing December 1, 2043, $600,000 USD ($805,620 CAD) fixed term debt maturing June 21, 2017, and $600,000 USD ($805,620 CAD) fixed term debt maturing August 17, 2026. Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 11 (d).

Notes To The Financial Statements

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, 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.

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 in order 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 unwound 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 due to prepayments therefore no prepayments fees recovered from local authorities were remitted to counterparties (2016 - $1,425).

Interest rate swaps include the following outstanding cross currency swaps:

	2017		2016	
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	$ 470,384	$ 125,000	$ 118,438
European Euro	€ 225,000	$ 325,875	€ 175,000	$ 255,675
United Kingdom Pound Sterling	£ 650,000	$ 1,061,125	£ -	$ -
United States Dollar	$ 600,000	$ 787,200	$ 1,200,000	$ 1,404,600

To minimize its foreign currency risk on debt, cross currency interest rate swaps are used as described in Note 11 (g).

Financial Information

Notes To The Financial Statements

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	2018	2019 to 2021	2022 and after	Total
Interest rate swaps, December 31, 2017	$ 640,018	$ 3,112,869	$ 22,578,714	$ 26,331,601
	2017	2018 to 2020	2021 and after	Total
Interest rate swaps, December 31, 2016	$ 2,839,740	$ 2,615,731	$ 20,178,181	$ 25,633,652

At December 31, 2017, 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:

Maturities	2017	2016
Accrued interest receivable on debt swaps	$ 9,820	$ 16,189
Accrued interest payable on loan swaps	$ 41,537	$ 55,092

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 on the basis of 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.

Notes To The Financial Statements

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 $117,857 (2016 - $158,028) and a decrease in fair value of $122,288 (2016 - $163,706), 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, and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing. 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 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. Alberta Investment Management Coporation (AIMCo) provides collateral management services for ACFA and exchanges collateral with counterparties on behalf of ACFA. During the year ended December 31, 2017, ACFA was required to post cash collateral and non-cash collateral on multiple occasions.

As at December 31, 2017, the following cash collateral and non-cash collateral were outstanding:

	2017		2016	
	Cash Collateral	Non-Cash Collateral (a)	Cash Collateral	Non-Cash Collateral (a)
Posted to counterparties on ACFA's behalf on net unfavourable positions	$ 12,800	$ 507	$ -	$ 10,126
Received on ACFA's behalf on net favourable positions	$ 18,403 (b)	$ 39,798	$ -	$ 108,256

a. Non-cash collateral includes securities such as treasury bills and bonds.

b. Received $14,670 US dollars in cash collateral which translates to $18,403 CAD dollars at the end of December 31, 2017.

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 $522,941 at December 31, 2017 (2016 - $821,731) are subject to master netting arrangements against unfavourable positions of $1,185,169 (2016 - $1,614,009), which reduces ACFA's credit exposure by $522,941 (2016 - $821,731).

Financial Information

Notes To The Financial Statements

NOTE 7 – SHARE CAPITAL

Share capital is valued at $10 per share. Voting rights for Classes B to E, as established in legislation, relate only to the election of a director representing the shareholder's class. Further particulars of share capital are as follows:

			2017		2016	
Class	Restricted to	Number of Shares Authorized	Issued and Fully Paid	Total Dollar Amount	Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	886	8,860	885	8,850
C	Cities	750	589	5,890	589	5,890
D	Town and villages	750	275	2,750	277	2,770
E	Educational authorities	500	76	760	76	760
Total		**7,500**	**6,326**	**$ 63,260**	**6,327**	**$ 63,270**

During the year, one Class B share and one Class D share were issued (2016 - one Class E share was issued), and three Class D shares were cancelled (2016 - three Class D shares were cancelled).

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 and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital is to safeguard its ability to continue as a going concern 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 December 31, 2017 were $447,721 (2016 - $405,406). Capital management objectives, policies and procedures are unchanged since the preceding year.

Notes To The Financial Statements

NOTE 9 – DIRECTOR AND AUDIT COMMITTEE FEES, AND RELATED PARTY TRANSACTIONS

Director and Audit Committee fees paid by ACFA are as follows:

	2017		2016	
	Number of Positions	Total	Number of Positions	Total
Board and Audit Committee Chairs	2	$ 9	2	$ 7
Board and Audit Committee	9	25	9	22
	11	**$ 34**	**11**	**$ 29**

There are two board members who are employees of the Province of Alberta and do not receive compensation from ACFA and are excluded from the table above. The Audit Committee Chair and Audit Committee members are also members of the Board of Directors.

ACFA has no employees. Its operations are managed by 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 debt to ACFA. Loans to local authorities and debt on the 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 $790 (2016 - $797) 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 $72 (2016 - $55) due to related parties at December 31, 2017.

NOTE 10 – EXPENSE BY OBJECT

	Budget	2016	2015
Salaries and benefits	$ 660	$ 661	$ 660
Services	281	206	214
Contract services with related parties	135	171	135
Goods	9	10	11
Financial transactions and other	18	19	25
Amortization of tangible capital assets	4	4	4
	$ 1,107	**$ 1,071**	**$ 1,049**

Financial Information

Notes To The Financial Statements

NOTE 11 – FINANCIAL RISK MANAGEMENT

(a) Framework

ACFA's management is accountable and responsible for monitoring performance and reporting to the Board of Directors and recommending changes to existing policies, including the Derivative Policy. The Audit Committee assists in monitoring the corporate governance, accountability processes and control systems in ACFA and reports to the Board of Directors. The Asset-Liability Committee ("ALCO") also reviews the Derivative Policy, and other policies regarding interest rate risk management, funding, loan prepayments and loan pricing, and recommends changes to the Board of Directors. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of all policies.

Management is primarily responsible for overseeing operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed through use of appropriate policies, procedures and controls designed to create an effective internal control environment within the organization. ACFA's accountability framework also includes: preparation of a 5 year business plan and annual budget that is approved by the Board of Directors, quarterly financial forecasting and reporting to monitor financial results, codes of conduct and ethics for the Board of Directors and staff, and a whistleblower policy.

The Audit Committee fulfills its responsibilities by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions. It monitors the adequacy and effectiveness of internal controls, including internal controls over financial reporting.

The ALCO is a management committee that oversees and manages ACFA's financial risks such as: market risk, including interest rate risk and currency risk; the risk of higher floating rate borrowing margins; the risk arising from mismatches in the floating rate reset dates of assets and liabilities; financing and refinancing risk; loan prepayment risk; and loan pricing risk. The ALCO manages financial risks to ensure ACFA's operating surplus does not decrease due to a significant, unexpected loss. It achieves this by setting risk benchmarks and monitoring performance against the benchmarks. It also assesses financial risks and formulates/evaluates acceptable risk mitigation strategies, within Board policy limits, to manage them.

Together, the aforementioned develop ACFA's strategic direction, oversee financial risk management and review and approve policies and procedures to maintain an acceptable level of financial risk.

(b) 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.

Notes To The Financial Statements

(b) Asset and Liability Management (Continued)

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 (g).

ACFA's Canadian dollar bank accounts are exposed to interest rate risk. Canadian cash balances are held in CCITF.

(c) 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 4 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 6.

(d) 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) 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	2018	2019 to 2021	2022 and after	Total
Financial Assets				
Cash and restricted cash	$ 61,225	$ -	$ -	$ 61,225
Accrued interest receivable on loans	98,414	-	-	98,414
Accrued interest receivable on debt swaps (a)	9,820	-	-	9,820
Loans to local authorities	788,179	2,593,725	12,230,278	15,612,182
December 31, 2017	**$ 957,638**	**$2,593,725**	**$ 12,230,278**	**$ 15,781,641**
Loan effective rate, 2017 (b)	3.76%	3.78%	3.77%	3.77%
	2017	**2018 to 2020**	**2021 and after**	**Total**
December 31, 2016	**$ 1,320,269**	**$2,458,821**	**$ 11,920,372**	**$ 15,699,462**
Loan effective rate, 2016 (b)	3.84%	3.84%	3.83%	3.83%

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.

Notes To The Financial Statements

Maturity / Repricing	2018	2019 to 2021	2022 and after	Total
Financial Liabilities				
Accrued interest payable on debt	$ 40,558	$ -	$ -	$ 40,558
Accrued interest payable on loan swaps (a)	41,537	-	-	41,537
Debt by type:				
Short-term (c)	1,925,160	-	-	1,925,160
Floating	1,480,000	-	-	1,480,000
Fixed (b)	600,000	2,699,832	8,628,498	11,928,330
December 31, 2017	**$ 4,087,255**	**$2,699,832**	**$ 8,628,998**	**$ 15,415,585**
Debt effective rate, 2017	2.52%	2.93%	2.98%	2.96%

	2017	2018 to 2020	2021 and after	Total
December 31, 2016	**$ 6,623,309**	**$2,197,367**	**$ 6,726,694**	**$ 15,547,370**
Debt effective rate, 2016 (d)	3.20%	3.24%	4.05%	3.87%

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 $1,930,000 (2016 - $2,300,000) net of discounts on short-term notes of $4,840 (2016 - $3,299).

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 $15,130,185 and $11,201,416 respectively (2016 - $14,983,161 and $10,650,492 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 $6,275 increase and $6,275 decrease (2016 - $7,166 increase and $7,166 decrease).

Notes To The Financial Statements

(e) 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 and loan demand of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. 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 December 31, 2017, 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	2018	2019 to 2021	2022 and after	Total
Accounts payable	$ 574	$ -	$ -	$ 574
Debt by type, contractual repayments of principal:				
Short-term (a)	1,925,160	-	-	1,925,160
Floating (b)	1,480,000	-	-	1,480,000
Fixed	600,000	2,699,832	8,628,498	11,928,330
Debt by type, contractual payments of interest:				
Short-term (a)	4,840	-	-	4,840
Floating (b)	5,582	-	-	5,582
Fixed	325,094	898,967	1,945,025	3,169,086
Loan swaps (pay fixed, receive floating) (b)	234,660	632,789	1,519,607	2,387,056
Commitments for leases and supplies and services	158		-	158
Commitments for loans	164,434	5,612	-	170,046
Total	**$ 4,740,502**	**$ 4,237,200**	**$12,093,130**	**$21,070,832**

a. Comprised of contractual principal of $1,930,000 (2016 - $2,300,000) net of discounts on short-term notes of $4,840 (2016 - $3,299).

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.

Notes To The Financial Statements

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.

Estimated Future Cash In Flows	2018	2019 to 2021	2022 and after	Total
Accounts receivable	$ 309	$ -	$ -	$ 309
Loans, contractual collection of principal (a)	878,713	2,604,383	12,299,132	15,782,228
Loans, contractual receipts of interest (a)	573,542	1,531,667	3,769,424	5,874,633
Debt swaps (receive fixed, pay floating) (a) (b)	92,451	301,480	919,888	1,313,819
Total	**$ 1,545,015**	**$4,437,530**	**$ 16,988,444**	**$ 22,970,989**

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. $170,046 of the contractual principal to be collected are loans that ACFA has contractually committed to fund after December 31, 2017.

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.

(f) 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.

Notes To The Financial Statements

(g) 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 December 31, 2017, ACFA held foreign currency denominated debt as shown on the table below:

	2017				2016			
		Foreign Currency notional		Canadian dollar carrying value at December 31		Foreign Currency notional		Canadian dollar carrying value at December 31
Australian Dollar	$	485,000	$	470,349	$	125,000	$	121,338
European Euro	€	225,000	$	338,670	€	175,000	$	247,957
United Kingdom Pound Sterling	£	650,000	$	1,102,465	£	-	$	-
United States Dollar	$	600,000	$	752,700	$	1,200,000	$	1,611,240

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 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.

During the year, $600,000 USD denominated debt matured (2016 - nil) resulting in a loss on foreign exchange of $181,200 (2016 - nil) and a realized gain on derivatives of $181,200 (2016 - nil). Realized gains and losses are recognized in the statement of operations and as reclassification adjustments in the statement of remeasurement gains and losses.

As at December 31, 2017, ACFA has no other financial instruments that are exposed to foreign currency risk.

Notes To The Financial Statements

NOTE 12 – CONTRACTUAL OBLIGATIONS AND COMMITMENTS

(a) Lease

ACFA has obligations under an operating lease expiring on October 31, 2018 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2017. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2018	$ 84	$ 74
Total	**$ 84**	**$ 74**

(b) Loans

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts, interest rates and terms to maturity, subject to ACFA's normal credit policies and appropriate collateral. Loan commitments include authorized loans not yet drawn down or awaiting further draw down.

The loan commitments indicate the maximum credit exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2017 were:

	2017
2018	$ 164,434
2019	5,612
Total	**$ 170,046**

NOTE 13 – BUDGET

The 2017 budget was approved by the Board of Directors on December 7, 2016. Budget amounts for 2017 were prepared on an amortized cost basis and remeasurement gains and losses on derivatives were not budgeted.

NOTE 14 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were recommended for approval by the Audit Committee on March 14, 2018 and subsequently approved by the Board of Directors on March 21, 2018.

Financial Information

Schedule 1 – Debt

As at December 31, 2017 *(in thousands of dollars)*

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Short-term:				
Jan-02-2018	1.1259%	Short-term	(b)	$ 200,000
Jan-09-2018	0.9789%	Short-term	(b)	120,000
Jan-16-2018	1.0778%	Short-term	(b)	10,000
Jan-23-2018	1.0642%	Short-term	(b)	200,000
Feb-06-2018	1.0247%	Short-term	(b)	200,000
Feb-13-2018	1.0251%	Short-term	(b)	200,000
Feb-20-2018	1.0230%	Short-term	(b)	200,000
Feb-27-2018	1.2228%	Short-term	(b)	200,000
Mar-06-2018	1.0444%	Short-term	(b)	200,000
Mar-13-2018	1.0387%	Short-term	(b)	200,000
Mar-20-2018	1.0619%	Short-term	(b)	200,000
				1,930,000
Private – Canada Pension Plan Investment Fund / CPP Investment Board:				
Oct-01-2020	6.2800%	Fixed		222,367
Jun-01-2022	6.0600%	Fixed		100,000
Apr-05-2023	5.8900%	Fixed		50,000
Dec-01-2023	5.5000%	Fixed		150,000
Dec-03-2024	5.1800%	Fixed		78,000
Nov-03-2026	4.4900%	Fixed		200,000
Nov-03-2031	4.5000%	Fixed		125,396
Nov-02-2032	4.8300%	Fixed		190,383
				1,116,146

Schedule 1 – Debt

As at December 31, 2017 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Fixed and Floating:				
Jun-01-2018	5.1500%	Fixed		50,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-15-2018	1.5820%	Floating	(a) (b)	500,000
Jun-15-2018	1.5820%	Floating	(a) (b)	500,000
Jun-15-2018	1.6000%	Fixed	(b)	500,000
Dec-01-2019	4.0000%	Fixed	(b)	275,000
Jun-01-2020	1.2500%	Fixed	(b)	600,000
Jun-01-2020	1.2500%	Fixed	(b)	500,000
Jun-17-2020	1.6720%	Floating	(a) (b)	165,000
Jun-17-2020	1.6720%	Floating	(a) (b)	315,000
Nov-15-2021	1.0000%	Fixed	(b) (f)	1,102,465
Sep-01-2022	1.6000%	Fixed	(b)	300,000
Dec-15-2022	2.5500%	Fixed	(b)	720,000
Dec-15-2022	2.5500%	Fixed	(b)	600,000
Dec-01-2023	5.1000%	Fixed		20,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Jun-01-2026	2.2000%	Fixed	(b)	300,000
Aug-17-2026	2.0500%	Fixed	(b) (c)	752,700
Dec-14-2026	3.1000%	Fixed	(b) (d)	122,513
Dec-14-2026	3.1000%	Fixed	(b) (d)	49,005
Jun-01-2027	2.5500%	Fixed	(b)	300,000
Jun-01-2027	2.5500%	Fixed	(b)	350,000
Jun-01-2027	2.5500%	Fixed	(b)	300,000
Apr-11-2028	3.6000%	Fixed	(b) (d)	245,025
Apr-11-2028	3.6000%	Fixed	(b) (d)	58,806
Sep-20-2029	2.9000%	Fixed	(b)	30,000
Sep-20-2029	2.9000%	Fixed	(b)	170,000
Sep-20-2029	2.9000%	Fixed	(b)	50,000
Sep-20-2029	2.9000%	Fixed	(b)	50,000

Financial Information

Schedule 1 – Debt

As at December 31, 2017 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Sep-20-2029	2.9000%	Fixed	(b)	150,000
Jun-01-2031	3.5000%	Fixed	(b)	1,268,000
Dec-01-2033	3.9000%	Fixed	(b)	200,000
Dec-01-2033	3.9000%	Fixed	(b)	110,000
Dec-01-2033	3.9000%	Fixed	(b)	215,000
Dec-01-2033	3.9000%	Fixed	(b)	225,000
Dec-01-2033	3.9000%	Fixed	(b)	110,000
Dec-01-2033	3.9000%	Fixed	(b)	140,000
Nov-02-2037	3.9000%	Fixed	(b)	60,000
Dec-01-2043	1.1500%	Fixed	(b) (e)	263,410
Dec-01-2043	1.1500%	Fixed	(b) (e)	75,260
Dec-01-2048	3.0500%	Fixed	(b)	200,000
				12,292,184
Total contractual principal outstanding – 2017				15,338,330
Unamortized net (discounts)				(41,741)
Unamortized commission fees				(18,798)
Total amortized debt – 2017				**$ 15,277,791**
Total contractual principal outstanding – 2016				15,459,681
Unamortized net (discounts)				(37,871)
Unamortized commission fees				(15,702)
Total amortized debt – 2016				**$ 15,406,108**

NOTES

a. Floating rate notes that pay interest quarterly at the Canadian Deposit Offered Rate ("CDOR") plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the 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 at the reporting date.

d. Note issued in Australian dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

e. Note issued in as European Union Euros and translated to Canadian dollars using the foreign exchange rate at the reporting date.

f. Note issued in UK Pounds Sterling and translated to Canadian dollars using the foreign exchange rate as at the reporting date.

ALBERTA INSURANCE COUNCIL

Financial Statements

March 31, 2018

KPMG LLP
2200, 10175 - 101 Street
Edmonton AB T5J 0H3
Canada
Telephone (780) 429-7300
Fax (780) 429-7379

INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statements of financial position as at December 31, 2017, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2017, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by KPMG LLP]

Chartered Professional Accountants

April 19, 2018
Edmonton, Canada

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 8,738,384	$ 7,650,464
Accounts receivable	39,104	12,139
Prepaid expenses and other assets	68,618	71,811
	8,846,106	7,734,414
Other assets	41,500	-
Capital assets (note 3)	741,051	812,513
	$ 9,628,657	$ 8,546,927
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 577,886	$ 397,724
Deferred license, assessment, and continuing education fee revenue (note 4)	2,809,769	2,717,897
	3,387,655	3,115,621
Asset retirement obligation (note 5)	66,069	65,459
Deferred rent and tenant inducements (note 6)	305,140	375,111
	3,758,864	3,556,191
Net assets:		
Invested in capital assets (note 7)	500,118	517,556
Internally restricted	750,000	750,000
Unrestricted	4,619,675	3,723,180
	5,869,793	4,990,736
Commitments and contingencies (note 10)		
	$ 9,628,657	$ 8,546,927

See accompanying notes to financial statements.

Original signed by Chair, Audit Committee

Original signed by Vice Chair, Alberta Insurance Council

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2017, with comparative information for 2016

	2017 Budget	2017	2016
Revenue:			
License, assessment, examination and continuing education fees	$ 6,040,000	$ 6,664,716	$ 6,177,787
Interest and other	50,000	72,472	57,881
	6,090,000	6,737,188	6,235,668
Expenses:			
Manpower (note 8)	3,434,000	3,167,811	3,033,734
Occupancy and premises	805,000	776,071	745,333
Amortization of capital assets	340,000	308,466	336,257
Councils, boards and committees (note 9)	390,000	284,231	226,942
Software and computer	485,000	574,757	389,934
Office and administration	335,000	263,187	248,646
Professional fees	255,000	209,818	177,499
Communications	221,000	148,509	144,342
Travel	97,000	125,281	81,629
	6,362,000	5,858,131	5,384,316
Excess (deficiency) of revenue over expenses	$ (272,000)	$ 879,057	$ 851,352

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative information for 2016

	Invested in capital assets	Internally restricted	Unrestricted	2017	2016
Net assets, beginning of year	$ 517,556	$ 750,000	$ 3,723,180	$ 4,990,736	$ 4,139,384
Excess of revenue over expenses	-	-	879,057	879,057	851,352
Amortization of capital assets	(308,466)	-	308,466	-	-
Amortization of deferred tenant inducements	54,635	-	(54,635)	-	-
Accretion of asset retirement obligation	(610)	-	610	-	-
Purchase of capital assets	237,003	-	(237,003)	-	-
	$ 500,118	$ 750,000	$ 4,619,675	$ 5,869,793	$ 4,990,736

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 879,057	$ 851,352
Items not involving cash:		
Accretion of asset retirement obligation	610	610
Amortization of deferred tenant inducements	(54,635)	(54,635)
Recognition of deferred rent	(15,337)	(3,900)
Amortization of capital assets	308,466	336,257
Loss on disposal of capital assets	-	136
(Increase) decrease in accounts receivable	(26,965)	30,359
Decrease in prepaid expenses	3,193	6,548
Increase in other assets	(41,500)	-
Increase (decrease) in account payable and accrued liabilities	180,162	(114,691)
Increase in deferred license, assessment and continuing education fee revenue	91,872	179,639
	1,324,923	1,231,675
Capital activities:		
Purchase of capital assets	(237,003)	(181,507)
Proceeds on sale of capital assets	-	1,945
	(237,003)	(179,562)
Increase in cash and cash equivalents	1,087,920	1,052,113
Cash and cash equivalents, beginning of year	7,650,464	6,598,351
	$ 8,738,384	$ 7,650,464

See accompanying notes to financial statements.

Financial Information

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2017

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 and assessment fees received but not yet recognized as revenue are recorded as deferred license and assessment fee revenue.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2017

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
Furniture and office equipment	
Computer equipment	3 - 10 years
Computer software	3 - 7 years
Leasehold improvements	3 - 7 years
Telephone equipment	Term of lease

(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, 2017

1. Significant accounting policies (continued):

(f) Internally restricted net assets:

The Council has established internally restricted net assets in the amount of $750,000 to fund capital asset additions and maintenance costs over the medium term.

(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.

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, 2017

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 2018, the Council will continue to assess the impact and prepare for the adoption of these standards.

Standard	Effective date (fiscal years beginning on or after)
PS2200 - Related party disclosures	April 1, 2017
PS3420 - Inter-entity transactions	April 1, 2017
PS3210 - Assets	April 1, 2017
PS3320 - Contingent assets	April 1, 2017
PS3380 - Contractual rights	April 1, 2017
PS3430 - Restructuring transactions	April 1, 2018

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2017

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of $7,804,777 (2016 - $6,870,586) 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, 2017 was 0.95% (2016 - 0.85%).

3. Capital assets:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Furniture and office equipment	$ 435,349	$ 318,311	$ 117,038	$ 148,871
Computer equipment	700,432	515,923	184,509	163,952
Computer software	1,661,753	1,526,042	135,711	177,513
Leasehold improvements	1,128,155	835,478	292,677	309,362
Telephone equipment	21,725	10,609	11,116	12,815
	$ 3,947,414	$ 3,206,363	$ 741,051	$ 812,513

4. Deferred license, assessment, and continuing education fee revenue:

	2017	2016
License	$ 2,715,344	$ 2,624,750
Assessment	82,125	82,875
Continuing education	12,300	10,272
	$ 2,809,769	$ 2,717,897

License terms commence July 1 and remain in effect until June 30 of the following year.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2017

5. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Edmonton and Calgary to remove improvements made to these premises upon termination of the leases. It is the opinion of management that it is highly probable that the Council will be required to remove improvements made to its Edmonton premises, and has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs, using the discount rate of 0.94% (2016 – 0.94%). Amortization of $6,029 (2016 - $6,019) is included in amortization of capital assets, and the accretion expense in the amount of $610 (2016 - $610) has been included with occupancy costs. The undiscounted asset retirement obligation is $68,000 as at December 31, 2017 (2016 - $68,000).

Management has estimated the cost to remove improvements to its Calgary premises would not be material and believes the probability of incurring these costs is low. Accordingly, management has not recorded either an asset retirement cost or asset retirement obligation for the Calgary location.

The estimated carrying value of the Edmonton leasehold improvement is $185,000 at December 31, 2017 (2016 - $221,000).

6. Deferred rent and tenant inducements:

	2017	2016
Deferred tenant inducements	$ 174,864	$ 229,498
Deferred rent	130,276	145,613
	$ 305,140	$ 375,111

7. Invested in capital assets:

	2017	2016
Capital assets	$ 741,051	$ 812,513
Asset retirement obligation	(66,069)	(65,459)
Deferred tenant inducements	(174,864)	(229,498)
	$ 500,118	$ 517,556

Financial Information

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2017

8. Manpower:

	Full Time Employees	Salary[(a)]	Benefits and other[(b)]	2017 Total	2016 Total
Chief Executive Officer	1	$ 270,000	$ 30,637	$ 300,637	$ 282,259
Chief Operating Officer	1	235,914	41,074	276,988	235,542
Other staff	19	2,219,237	370,949	2,590,186	2,515,933
	21	$ 2,725,151	$ 442,660	$ 3,167,811	$ 3,033,734

(a) Salary includes regular base pay, bonuses and overtime.

(b) Benefits and other includes employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay.

Employees of the Council are specifically excluded from enrolment in the Province of Alberta's Public Service Plan and the Province of Alberta's Management Employees Pension Plan. The Council employees are also excluded from any of the Province of Alberta's employee benefits plans.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2017

9. Councils, boards and committees:

(a) The following amounts are included in Councils, boards and committees expenses:

		2017		2016
Councils and Council Committees	$	144,637	$	167,458
Appeal Boards		58,556		10,185
Accreditation Committee		81,038		49,299
	$	284,231	$	226,942

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 AAC.

(b) Per diem payments of Council Members:

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

	Number of Members	2017[iii] $	Number of members	2016[iii] $
Councils[i]				
Alberta Insurance Council – Vice Chair[ii]	1	14,850	1	14,850
Other – Chairs	12	58,402	12	67,965
Members	51	122,567	32	121,958
Total	64	195,819	45	204,773

(i) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Alberta Accreditation Committee.

(ii) The position of Chair is vacant and the Vice Chair has assumed the duties of Chair. Amounts include per diem payments for attendance at Alberta Insurance Council and the Chair annual stipend.

(iii) 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, 2017

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 four years are as follows:

2018	$ 432,152
2019	440,678
2020	449,204
2021	253,914

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.

The Council has been named as a defendant in a legal action, claiming damages in the amount of $10 million. In management's opinion, the legal action brought forward lacks merit and the Council has adequate insurance to cover all claims and legal proceedings. Consequently, any settlements reached are not expected to have a material adverse effect on the financial position of the Council.

11. 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, 2017 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2016.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2017

11. Financial risks and concentration of credit risk (continued):

(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 2016.

(c) Interest rate risk:

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.

There have been no significant changes to the interest rate risk exposure from 2016.

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ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2018

Auditor General
OF ALBERTA

Independent Auditor's Report

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Investment Management Corporation, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Investment Management Corporation as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 1, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, (*Thousands of Canadian dollars*)	**2018**	**2017**
Financial assets		
Cash and cash equivalents (Note 6)	$ 82,476	$ 69,175
Accounts receivable	16,679	12,157
Other assets	2,416	2,416
	101,571	83,748
Liabilities		
Accounts payable and accrued liabilities	6,558	4,738
Accrued employment liabilities (Note 7)	102,989	83,333
Advance from the Province of Alberta (Note 8)	58,349	63,349
Pension liabilities (Note 9)	3,726	3,494
Deferred lease inducement (Note 16)	1,173	1,922
	172,795	156,836
Net debt	(71,224)	(73,088)
Non-financial assets		
Tangible capital assets (Note 10)	67,774	70,713
Prepaid expenses	7,097	6,022
	74,871	76,735
Net assets (Note 11)	$ 3,647	$ 3,647

Contractual obligations (Note 16)

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by

Richard Bird
Board Chair

Original signed by

Tom Woods
Audit Committee Chair

Statement of Operations

For the year ended March 31, (*Thousands of Canadian dollars*)	2018 Budget (Note 17)	2018	2017
Revenue			
Cost recoveries	$ 476,594	$ 558,312	$ 455,236
Interest income		518	327
Total revenue	476,594	558,830	455,563
Expenses			
Third-party investment management fees (Note 12)	181,185	176,703	155,325
Third-party performance fees (Note 12)	67,457	117,430	76,845
Third-party asset administration, legal, and other (Note 12)	84,352	89,186	78,111
Salaries, wages and benefits	87,857	120,604	95,361
Data, subscriptions and maintenance services	20,969	20,478	17,513
Amortization of tangible capital assets (Note 10)	13,953	13,381	13,387
Administrative expenses	6,994	7,623	6,918
Contract and professional services	6,111	6,413	5,282
Rent	7,188	6,280	6,299
Interest	528	732	522
Total expenses	476,594	558,830	455,563
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*)	2018 Budget (Note 17)	2018	2017
Annual surplus	$ -	$ -	$ -
Acquisition of tangible capital assets (Note 10)	(11,272)	(10,442)	(6,850)
Amortization of tangible capital assets (Note 10)	13,953	13,381	13,387
Loss on disposal of tangible capital assets	-	-	3
Change in prepaid expenses	-	(1,075)	(813)
Decrease in net debt in the year	2,681	1,864	5,727
Net debt at beginning of year	(73,088)	(73,088)	(78,815)
Net debt at end of year	$ (70,407)	$ (71,224)	$ (73,088)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*Thousands of Canadian dollars*)	2018	2017
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets (Note 10)	13,381	13,387
Amortization of deferred lease inducement	(749)	(749)
Loss on disposal of tangible capital assets	-	3
Change in pension liabilities	232	246
	12,864	12,887
(Increase) in accounts receivable	(4,522)	(384)
(Increase) in prepaid expenses	(1,075)	(813)
Increase in accounts payable and accrued liabilities	1,820	522
Increase in accrued employment liabilities	19,656	5,756
Cash provided by operating transactions	28,743	17,968
Capital transactions		
Acquisition of tangible capital assets (Note 10)	(10,442)	(6,850)
Cash applied to capital transactions	(10,442)	(6,850)
Financing transactions		
Repayment of advance from the Province of Alberta	(5,000)	(3,000)
Cash applied to financing transactions	(5,000)	(3,000)
Increase in cash and cash equivalents	13,301	8,118
Cash and cash equivalents at beginning of year	69,175	61,057
Cash and cash equivalents at end of year	$ 82,476	$ 69,175
Supplementary information		
Cash used for interest	$ 521	$ 359

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2018 (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 Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from federal and provincial income taxes 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 approximately $107.1 billion (2017: $98.4 billion) at March 31, 2018, see Note 13. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost-recovery basis. The Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 SUMMARY OF NEW ACCOUNTING PRONOUNCEMENTS

On April 1, 2017, the Corporation has prospectively adopted Canadian Public Sector Accountant Standards ("PSAS") Handbook Sections PS 2200 "Related Party Disclosures", PS 3420 "Inter-Entity Transactions", PS 3210 "Assets", PS 3320 "Contingent Assets" and PS 3380 "Contractual Rights".

PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. These accounting changes did not have any impact on the Corporation's financial statements other than additional related party disclosures in Note 14.

PS 3210 provides guidance for applying the definition of assets set out in the Financial Statement Concepts, Section PS 1000, and establishes general disclosure standards for assets. PS 3320 defines and establishes disclosure standards on contingent assets. PS 3380 defines and establishes disclosure standards on contractual rights. These disclosure changes had no impact on the Corporation's financial statements.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with PSAS and include the following significant accounting policies:

a) Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. Third-party investment management fees, which are recorded as $176,703 (2017: $155,325), third-party performance fees, which are recorded as $117,430 (2017: $76,845),

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

a) Measurement Uncertainty (continued)

and pension liabilities, which are recorded as $3,726 (2017: $3,494) 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. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 9 for a description of the key assumptions and how a change in the assumptions can impact the reported pension 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, 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.

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.

c) Expenses

Expenses are reported on an accrual basis and the cost of all goods consumed and services received during the year is expensed.

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 (2018 and 2017: $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 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.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

e) Liabilities (continued)

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.

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 information 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 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 are accounted for as expenses in the Statement of Operations (2018 and 2017: $nil).

Prepaid Expenses
Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

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.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

g) Valuation of Financial Assets and Liabilities (continued)

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, and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on rates of return of assets currently held by the Plan. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses 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 noon rate prevailing at the transaction dates.

NOTE 5 FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board issued the following accounting standard:

<u>PS 3430 Restructuring Transactions (effective April 1, 2018)</u>
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of this standard on the financial statements.

<u>PS 3280 Asset Retirement Obligations (effective April 1, 2021)</u>
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.

NOTE 6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

as at March 31, (Thousands of Canadian dollars)	2018	2017
Deposit in Consolidated Cash Investment Trust Fund	$ 82,308	$ 68,440
US bank account	67	67
Great British Pounds bank account	101	668
	$ 82,476	$ 69,175

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, 2018, securities held by the Fund have a time-weighted return of 1.03% per annum (2017: 0.86% per annum).

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, (Thousands of Canadian dollars)	2018	2017
Annual incentive plan (a)	$ 35,194	$ 28,142
Long-term incentive plan (b)	63,488	52,247
Restricted fund unit incentive plan (c)	1,068	1,406
Accrued vacation, salaries and benefits	3,239	1,538
	$ 102,989	$ 83,333

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, 2018 was $29,887 (2017: $23,652) 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. Senior management and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance 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 cumulative performance under 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 stretch target for the 2018 calendar year is $803,000.

Information about the target, stretch target, and actual results achieved for the last five calendar years is as follows:

b) Long-Term Incentive Plan (continued)

(Thousands of Canadian dollars)

	Target	Stretch Target	Value Add for Compensation Purposes[1]
2013	266,667	800,000	427,000
2014	269,000	807,000	(82,000)
2015	302,000	906,000	1,514,800
2016	251,500	754,500	225,500
2017	258,333	775,000	1,099,500
Total	$ 1,347,500	$ 4,042,500	$ 3,184,800

[1] Historic value-add was adjusted to reflect the impact of changes in the valuation methodology in 2014 for certain insurance-related investments. Value-add for periods prior to 2014 declined as a result. This adjustment was for compensation purposes only.

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 for $3,883 (2017: $1,546).

The accrued LTIP liability as at March 31, 2018 of $63,488 (2017: $52,247) reflects the current value of all LTIP, based on actual results to that date from the date they were awarded.

Information about total LTIP grants awarded and outstanding is as follows:

for the year ended March 31, (Thousands of Canadian dollars)	2018		2017	
	Original (Notional) Value		Original (Notional) Value	
LTIP grants outstanding, beginning of year	$ 48,078	$ 52,247	$ 43,128	$ 46,887
Granted	14,469	237	11,661	187
Accrual	-	35,009	-	21,828
Forfeited	(2,045)	(3,706)	(1,973)	(2,751)
Paid	(7,388)	(20,299)	(4,738)	(13,904)
LTIP grants outstanding, end of year	$ 53,114	$ 63,488	$ 48,078	$ 52,247

The maximum potential obligation related to the LTIP as at March 31, 2018 was $159,402 (2017: $144,234). Total expense related to the LTIP for the year ended March 31, 2018 was $31,570 (2017: $19,264), 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, 2018 of $1,068 (2017: $1,406) reflects the current value of all RFUs, based on actual results to that date from the date they were awarded.

Information about total RFU grants awarded and outstanding is as follows:

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

c) Restricted Fund Unit Incentive Plan (continued)

for the year ended March 31, (Thousands of Canadian dollars)	2018		2017	
	Notional Value		Notional Value	
RFU grants outstanding, beginning of year	$ 1,778	$ 1,406	$ 1,847	$ 477
Granted	25	7	56	35
Accrual	-	496	-	1,030
Paid	(784)	(842)	(125)	(136)
RFU grants outstanding, end of year	$ 1,019	$ 1,067	$ 1,778	$ 1,406

Total expense related to the RFU plan for the year ended March 31, 2018 was $503 (2016: $1,066) which was recorded in salaries, wages and benefits.

NOTE 8 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, 2018 (2017: $nil). As at March 31, 2018, the outstanding advance from the Province totaled $58,349 (2017: $63,349).

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 0.87% (2017: 0.56%). Interest expense on the advance is $521 (2017: $359) and is included in the Statement of Operations. At March 31, 2018, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 9 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

as at and for the year ended March 31, (Thousands of Canadian dollars)	2018	2017
Accrued retirement obligation		
Beginning of year	$ 5,946	$ 4,529
Current service cost	546	580
Interest cost	172	135
Benefits paid	(31)	(28)
Actuarial (gain) loss	(195)	730
End of year	6,438	5,946
Plan assets		
Fair value, beginning of year	2,229	1,794
Actual return on plan assets	215	85
Employer contributions	219	189
Employee contributions	219	189
Benefits paid	(31)	(28)
End of year	2,851	2,229
Funded status - plan deficit	(3,587)	(3,717)
Unamortized net actuarial (gain) loss	(139)	223
Reported liability	$ (3,726)	$ (3,494)
Current service cost	546	580
Interest cost	172	135
Expected return on plan assets	(64)	(52)
Net actuarial loss (gain) amortization	16	(39)
Less: employee contributions	(219)	(189)
Total SRP expense	$ 451	$ 435

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, 2015. An extrapolation of the actuarial valuation dated December 31, 2015 was performed to March 31, 2018.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

as at March 31,	2018	2017
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

The following table presents key assumptions applicable to the SRP:

NOTE 9 PENSION LIABILITIES (continued)

as at March 31,	2018	2017
Annual discount rate	2.8%	2.7%
Annual salary increase - base	2.0%	2.0%
Expected long-term return on plan assets	5.6%	5.3%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% increase or decrease in the discount rate would decrease or increase the reported liability by $1,625 as at March 31, 2018 (2017: $1,519). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $1,478 as at March 31, 2018 (2017: $1,399). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $626 as at March 31, 2018 (2017: $585).

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 $6,093 (2017: $4,597) for the year ended March 31, 2018 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, 2017, MEPP reported a surplus of $866,006 (2016: surplus of $402,033) and PSPP a surplus of $1,275,843 (2016: surplus of $302,975).

NOTE 10 TANGIBLE CAPITAL ASSETS

for the year ended March 31, (Thousands of Canadian dollars)

	Computer systems hardware and software	Leasehold improvements	Furniture and equipment	2018	2017
Cost					
Opening balance	$ 103,959	$ 13,467	$ 4,650	$ 122,076	$ 115,312
Additions	10,208	113	121	10,442	6,850
Disposals	-	-	-	-	(86)
Closing balance	114,167	13,580	4,771	132,518	122,076
Accumulated amortization					
Opening balance	38,968	9,253	3,142	51,363	38,059
Amortization expense	11,455	1,456	470	13,381	13,387
Effect of disposals	-	-	-	-	(83)
Closing balance	50,423	10,709	3,612	64,744	51,363
Net book value at March 31	$ 63,744	$ 2,871	$ 1,159	$ 67,774	$ 70,713

Cost includes work-in-progress at March 31, 2018 totaling $4,056 (2017 - $313) comprised of computer systems hardware and software.

NOTE 11 NET ASSETS

Net assets is made up as follows:

as at March 31, (Thousands of Canadian dollars)	2018	2017
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2017: $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 (2017: $nil).

NOTE 12 THIRD-PARTY INVESTMENT COSTS

Third-party investment costs include third-party investment management and performance-based fees, as well as asset administration, legal and other expenses incurred on behalf of the Corporation's clients.

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 equity and private income pools. Third-party management fees may also vary by investment asset class. As of March 31, 2018, 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.

Third-party asset administration, legal and other expenses are incurred directly by the Corporation's investment portfolios and include fees for the following services: asset custody and administration, audit, compliance and valuation, and investment acquisition, disposition and structuring.

NOTE 13 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

At March 31, 2018, assets under administration totalled approximately $107.1 billion (2017: $98.4 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

NOTE 13 ASSETS UNDER ADMINISTRATION (continued)

as at March 31, (Thousands of Canadian dollars)	2018	2017
Pension plans	$ 69,234,771	$ 63,012,934
Ministry of Treasury Board and Finance		
General revenue and entity investment funds [1]	9,471,436	6,782,646
Endowment funds (including the Alberta Heritage Savings Trust Fund)	22,047,275	22,562,476
Insurance-related funds	3,245,299	2,916,374
Other government Ministry investment funds	3,115,869	3,137,906
	$ 107,114,650	$ 98,412,336

[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)	2018	2017
Fixed income		
Fixed income [1]	$ 35,269,548	$ 28,718,617
Private mortgages	3,298,205	3,077,602
Private debt and loan	928,777	798,096
Inflation sensitive		
Real estate	13,944,218	12,589,786
Infrastructure and timber	8,101,618	6,793,237
Real return bonds and commodities	953,473	2,152,258
Equities		
Public equities and absolute return strategies	40,374,540	39,937,952
Private equity and venture capital	4,068,523	4,169,538
Overlays	175,748	175,250
	$ 107,114,650	$ 98,412,336

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Treasury Board and Finance.

NOTE 14 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans, and other 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, 2018 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:

Financial Information

NOTE 14 RELATED PARTY TRANSACTIONS (continued)

for the year ended March 31, (Thousands of Canadian dollars)	2018	2017
Revenues		
Direct cost recoveries [(1)]	$ 369,503	$ 302,270
Indirect cost recoveries [(1)]	169,093	139,690
Interest income	518	327
	539,114	442,287
Expenses		
Interest on advance from the Province of Alberta	521	359
Contracted services [(2)]	851	743
	1,372	1,102
Assets		
Accounts receivable [(1)]	15,988	11,682
Liabilities		
Accounts payable	41	9
Advance from the Province of Alberta	58,349	63,349
	$ 58,390	$ 63,358

(1) Recovered from government funds, pension plans and other entities under common control.

(2) Transacted with the Ministry of Treasury Board and Finance and other entities.

NOTE 15 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain, and motivate top performers. Base salaries are market driven and variable compensation programs reward long-term value-add performance.

The following table presents total compensation of the directors and senior management of the Corporation earned for the year ended March 31, 2018 in accordance with direction from the Ministry of Treasury Board and Finance.

for the year ended March 31, (Thousands of Canadian dollars)						2018	2017
	Base	Incentive Plan		Other Cash	Other Non-Cash		
	Salary[1]	Annual[2]	Long-Term[3]	Benefits[4]	Benefits[5]	Total	Total
Chairman of the Board[6] [7]	$ -	$ -	$ -	$ 95	$ -	$ 95	$ 98
Board Members[6]	-	-	-	494	-	494	533
Chief Executive Officer	500	1,327	-	158	74	2,059	2,058
Chief Investment Officer	425	1,207	1,746	-	73	3,451	3,342
EVP, Private Markets[8]	14	-	-	-	15	29	2,038
EVP, Public Equities	300	632	932	-	58	1,922	1,782
EVP, Fixed Income	300	632	902	-	58	1,892	1,774
Chief Corporate & HR Officer	285	359	342	-	39	1,025	963
Chief Financial Officer (Acting) [9]	186	201	154	1	23	565	377
Chief Financial Officer [10]	164	151	-	50	25	390	208
SVP, Operations	242	203	272	-	54	771	682
Chief Legal Officer	260	285	162	1	45	753	638
Chief Risk Officer [11]	275	364	-	170	39	848	593
SVP, Client Relations [12]	240	175	-	50	32	497	118

(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, 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 between 10 and 11 independent members during fiscal 2017-18, including the Chairman whose compensation is disclosed separately.
(7) Two individuals occupied this position at different times during fiscal 2017-18. The incumbent was appointed Chairman on October 21, 2017. Amounts shown are for both the current and previous incumbent while they occupied the position.
(8) The incumbent left the Corporation on April 12, 2017.
(9) The incumbent was Acting Chief Financial Officer from October 28, 2016 to September 4, 2017. Currently, the incumbent is Director, Finance. Amounts are shown for the entire year.
(10) The incumbent commenced employment with the Corporation on September 5, 2017.
(11) The incumbent commenced employment with the Corporation on May 2, 2016.
(12) The incumbent commenced employment with the Corporation on November 1, 2016.

NOTE 15 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 2015, 2016 and 2017 but not vested are estimated as at March 31, 2018 based on actual performance for calendar years 2015, 2016 and 2017 and pro forma multipliers of 1.0 (target) for future years. For awards granted in 2018, the future payout is estimated as at March 31, 2018 based on pro forma multipliers of 1.0 (target) for calendar year 2018 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, 2017	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2018
Chief Executive Officer	$ 1,500	$ 500	$ -	$ -	$ 2,000
Chief Investment Officer	2,555	767	(582)	-	2,740
EVP, Private Markets [1]	1,334	-	-	(1,334)	-
EVP, Public Equities	1,375	499	(311)	-	1,563
EVP, Fixed Income	1,443	511	(301)	-	1,653
Chief Corporate & HR Officer	692	192	(114)	-	770
Chief Financial Officer (Acting) [2]	187	53	(51)	-	189
Chief Financial Officer [3]	-	114	-	-	114
SVP, Operations	477	139	(97)	-	519
Chief Legal Officer	361	127	(54)	-	434
Chief Risk Officer	330	165	-	-	495
SVP, Client Relations	96	96	-	-	192

	Estimated Future Payout				
(Thousands of Canadian dollars)	As at March 31, 2017	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2018
Chief Executive Officer	$ 2,157	$ 1,869	$ -	$ -	$ 4,026
Chief Investment Officer	4,354	2,754	(1,746)	-	5,362
EVP, Private Markets	2,697	-	-	(2,697)	-
EVP, Public Equities [1]	2,269	1,571	(932)	-	2,908
EVP, Fixed Income	3,000	1,384	(902)	-	3,482
Chief Corporate & HR Officer	1,010	841	(342)	-	1,509
Chief Financial Officer (Acting) [2]	311	221	(154)	-	378
Chief Financial Officer [3]	-	114	-	-	114
SVP, Operations	688	592	(272)	-	1,008
Chief Legal Officer	487	479	(162)	-	804
Chief Risk Officer	321	484	-	-	805
SVP, Client Relations	96	190	-	-	286

(1) The incumbent left the Corporation on April 12, 2017.
(2) The incumbent was Acting Chief Financial Officer from October 28, 2016 to September 4, 2017.
(3) The incumbent commenced employment with the Corporation on September 5, 2017.

NOTE 15 SALARIES AND BENEFITS DISCLOSURE (continued)

RFU awards are granted on a discretionary basis to bridge the gap period between when an individual commences employment and when LTIP grants begin vesting. RFU awards have time horizons of one to three year vesting periods. The following table shows the RFU grants and estimated future payouts for each named executive.

	Original (Notional) Value				
(Thousands of Canadian dollars)	As at March 31, 2017	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2018
Chief Executive Officer	$ 125	$ -	$ (125)	$ -	$ -
Chief Risk Officer	294	-	(147)	-	147

	Estimated Future Payout				
(Thousands of Canadian dollars)	As at March 31, 2017	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2018
Chief Executive Officer	$ 145	$ 13	$ (158)	$ -	$ -
Chief Risk Officer	311	29	(170)	-	170

NOTE 16 CONTRACTUAL OBLIGATIONS

Contractual obligations of $77,627 (2017: $36,057) 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. Estimated payment requirements for each of the next five years and thereafter are as follows:

as at March 31, (Thousands of Canadian dollars)	2018
2019	$ 29,208
2020	21,785
2021	13,605
2022	6,743
2023	2,913
Thereafter	3,373
Total	$ 77,627

The Corporation entered into a lease agreement commencing January 1, 2010, for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $6,768 which has been recognized as a reduction in lease expense over the 10-year term of the lease.

The Corporation also 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.

During the year ended March 31, 2018, the Corporation entered into a lease agreement commencing February 26, 2018 for 10 years.

The total deferred lease inducement as at March 31, 2018 is $1,173 (2017: $1,922).

Pursuant to Order in Council 23/2008, the Province of Alberta has made available a facility to access up to a maximum of $300,000 for letters of credit for security purposes. This facility is utilized by the investment pools and at March 31, 2018 the balance outstanding against the facility is $190,754 (2017: $250,708).

NOTE 17 2017-2018 BUDGET

The Corporation's budget for the year ended March 31, 2018 was approved by the Board of Directors on December 1, 2016.

NOTE 18 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, 2018, the total carrying amount in accounts receivable balance is current.

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 Great British Pounds denominated foreign currency in accounts payable and accrued liabilities as at March 31, 2018 is $1,022 (2017: $1,245) and $67 (2017: $24), 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 (2017: $633).

NOTE 19 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on June 1, 2018.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

December 31, 2017

Auditor General
OF ALBERTA

Independent Auditor's Report

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

Report on the Financial Statements
I have audited the accompanying financial statements of Alberta Local Authorities Pension Plan Corp., which comprise the statement of financial position as at December 31, 2017, and the statements of operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Local Authorities Pension Plan Corp. as at December 31, 2017, and the results of its operations, its remeasurement gains and losses, its change in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 28, 2018
Edmonton, Alberta

Alberta Local Authorities Pension Plan Corp.
Statement of Financial Position
As at December 31, 2017

		(thousands) 2017		2016
Financial Assets				
Cash	$	313	$	255
Accounts receivable		0		2
		313		257
Liabilities				
Accrued liabilities		145		62
Deferred revenue (Note 6)		168		195
		313		257
Net Financial Assets and Net Assets	$	-	$	-

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

Approved by the Board:

Original signed by
Terry Agoto
Chair of the Board

Original signed by
Peter Marsden
Audit Committee Vice-Chair

Approved by Management:

Original signed by
Christopher A. Brown
President & CEO

Financial Information

Alberta Local Authorities Pension Plan Corp.
Statement of Operations
For the year ended December 31, 2017

	(thousands)		
	Budget 2017 (Note 10)	Actual 2017	Actual 2016
Revenue			
Service revenue (Note 6)	$ 3,417	$ 2,577	$ 2,345
Miscellaneous revenue	-	2	2
Total revenue	3,417	2,579	2,347
Operating costs			
Salaries and benefits (Note 8)	1,609	1,269	1,191
Professional fees	381	298	344
Stakeholder Relations & Communication	537	381	296
Board costs	257	189	138
Actuarial services	369	218	165
General and administrative	264	224	213
Total operating costs	3,417	2,579	2,347
Annual surplus	$ -	$ -	$ -

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

Alberta Local Authorities Pension Plan Corp.
Statement of Cash Flows
For the year ended December 31, 2017

	(thousands)	
	2017	2016
Operating activities		
Annual surplus	$ -	$ -
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	2	(1)
Increase (Decrease) in accrued liabilities	83	(127)
Increase (Decrease) in deferred revenue	(27)	106
Increase (Decrease) in cash for the year	58	(22)
Cash at beginning of year	255	277
Cash at end of year	$ 313	$ 255

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

Alberta Local Authorities Pension Plan Corp.
Notes to the financial statements
December 31, 2017

1. Authority

Alberta Local Authorities Pension Plan Corp. (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000 and commenced operations on January 1, 2006. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

2. Nature of operations

The President of Treasury Board, Minister of Finance (**the Minister**), of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 (**the Act**) and the *Financial Administration Ac*t, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

3. Summary of significant accounting policies and reporting practices

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Revenue

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

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Financial assets of the Corporation are limited to cash and accounts receivable.

Liabilities

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

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.

Fair value of cash, accounts receivable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments.

Financial instruments

As the Corporation 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 re-measurement gains and losses and therefore a statement of re-measurement gains and losses has not been presented.

Net Financial Assets

The Corporation's operations are designed so that it will not have net operating results, net financial assets or net assets other than zero (see Note 6). The Corporation does not have any transactions to present on a statement of change in net financial assets. Therefore a statement of change in net financial assets has not been presented.

4. Future Accounting Changes

In June 2015 the Public Sector Accounting Board issued the following accounting standards:

PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective for entities whose fiscal year begins on or after April 1, 2017).

PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective for entities whose fiscal year begins on or after April 1, 2017).

PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets. PS 3320 defines and establishes disclosure standards on contingent assets. PS 3380 defines and establishes disclosure standards on contractual rights.

PS 3430 Restructuring Transactions (effective April 1, 2018).

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the financial statements.

5. Share capital

	2017	2016
Authorized		
Unlimited number of Class “A” common shares		
Issued		
100 Class “A” common shares (Note 1)	$ 1	$ 1

6. Service revenue / Deferred revenue

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the President of Treasury Board, Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

7. Commitments

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

	(thousands)
2018	$ 185
2019	$ 154
	$ 339

Financial Information

8. Salaries and benefits disclosure

(thousands)

	2017				2016
	Base Salary [(a)]	Other Cash Benefits [(b)]	Other Non-cash Benefits [(c)]	Total	Total
Corporation Board Chair	$ -	$ -	$ -	$ $ -	$ -
Corporation Board Members (excluding Chair)	-	81	-	81	68
President & Chief Executive Officer	248	68	60	376	377
Vice-Presidents:					
Investment Policy & Risk Mgmt [(d)]	148	25	32	205	215
Pension Policy & Funding [(e)]	160	31	38	229	222
Stakeholder Relations & Communications	157	29	36	222	231

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria. Board members only receive remuneration pay. Remuneration is paid in accordance with the fee structure approved by the Minister of Finance.

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

(d) Base salary is from actual start date, and does not encompass an entire year of base pay. In 2016, the position was a .8 FTE and is now a full time FTE.

(e) For 11 months salary in 2017.

9. Defined benefit plans (thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $137 for the year ended December 31, 2017 (2016: $135).

At December 31, 2016, the Public Service Pension Plan reported a surplus of $302,975 (2015: deficiency of $133,188), the Management Employees Pension Plan reported a surplus of $402,033 (2015: surplus of $299,051) and the

Supplementary Retirement Plan for Public Service Managers reported a deficiency of $50,020 (2015: deficiency of $16,305).

10. Approval of 2017 budget

The 2017 budget of $3,436,000 was approved by the Corporation's Board of Directors on October 21, 2016. The Corporation was notified of the approval on the budget of $3,436,000 by the President of Treasury Board, Minister of Finance on November 29, 2016. Subsequently, the Corporation was notified by the Department of Treasury Board and Finance on March 10, 2017, that the Corporation's budget would be reduced by $19,000, to $3,417,000, resulting from a reduction in the Management Employees Pension Plan employer contribution rates.

11. Financial statement approval

The financial statements were approved by the Corporation's Board of Directors on May 25, 2018.

ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

December 31, 2017

INDEPENDENT AUDITOR'S REPORT

Auditor General
OF ALBERTA

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Pensions Services Corporation, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCPA, FCA]

AUDITOR GENERAL
April 25, 2018
Edmonton, Alberta

Alberta Pensions Services Corporation

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31

(in thousands)	2017 Budget	2017 Actual	2016 Actual
Expenses			
Staff and related expenses	**$ 34,305**	**$ 33,721**	$ 31,581
Contract services	**2,764**	**2,664**	5,453
Materials and supplies	**5,055**	**4,323**	5,050
Amortization	**6,018**	**5,596**	3,811
Data processing and maintenance	**5,262**	**6,041**	6,753
Total before plan specific and employer specific services	**53,404**	**52,345**	52,648
Plan specific services (Note 5)	**3,663**	**3,110**	2,795
Employer specific services (Note 6)	**79**	**39**	80
Total operating expenses	**$ 57,146**	**$ 55,494**	$ 55,523
Recovery of costs (Note 7)	**$ 57,146**	**$ 55,494**	$ 55,523
Annual surplus (deficit)	**–**	**–**	–
Net assets at beginning of year	**–**	**–**	–
Net assets at end of year	**$ –**	**$ –**	$ –

Contractual obligations (Note 12)

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

Approved by the Board:

[Original Signed]

ROSEMARIE MCCLEAN
Chair, Board of Directors

[Original Signed]

ROGER ROSYCHUK
Chair, Audit Committee

Alberta Pensions Services Corporation

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(in thousands)

		2017		2016
Financial assets				
Cash	**$**	**357**	$	298
Accounts receivable		**8**		19
Due from pension plans (Note 7)		**4,945**		6,681
		5,310		6,998
Liabilities				
Accounts payable and accrued liabilities	**$**	**2,658**	$	4,700
Accrued salaries and benefits		**2,710**		2,634
Accrued vacation pay		**402**		415
Deferred lease inducement (Note 12)		**298**		485
Capital lease obligation (Note 12)		**119**		159
		6,187		8,393
Net debt	**$**	**(877)**	$	(1,395)
Non-financial assets				
Tangible capital assets (Note 8)	**$**	**45,212**	$	49,358
Prepaid expenses		**877**		1,395
		46,089		50,753
Net assets before spent deferred capital contributions		**45,212**		49,358
Spent deferred capital contributions (Note 8)		**45,212**		49,358
Net assets (Note 9)	**$**	**–**	$	–

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

(in thousands)	2017 Budget	2017 Actual	2016 Actual
Annual surplus (deficit)	$ –	$ –	$ –
Acquisition of tangible capital assets (Note 8)	(1,944)	(1,450)	(6,698)
Amortization of tangible capital assets (Note 8)	6,018	5,596	3,811
Change in spent deferred capital contributions	(4,074)	(4,146)	2,887
Change in prepaid expenses	–	518	(219)
Decrease (Increase) in net debt	–	518	(219)
Net debt at beginning of year	(1,395)	(1,395)	(1,176)
Net debt at end of year	$ (1,395)	$ (877)	$ (1,395)

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

Alberta Pensions Services Corporation

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

(in thousands)

	2017	2016
Operating transactions		
Annual surplus (deficit)	**$ –**	$ –
Non-cash items:		
Amortization of tangible capital assets (Note 8)	**5,596**	3,811
Decrease in deferred lease inducement (Note 12)	**(187)**	(187)
Increase in capital lease obligation (Note 12)	**–**	199
Amortization of spent deferred capital contributions (Note 8)	**(5,596)**	(3,811)
	(187)	12
Decrease (increase) in accounts receivable	**11**	(10)
Decrease (increase) in prepaid expenses	**518**	(219)
Decrease (increase) in due from pension plans	**1,736**	(234)
(Decrease) increase in accounts payable and accrued liabilities	**(2,042)**	240
Increase in accrued salaries and benefits	**76**	154
(Decrease) increase in accrued vacation pay	**(13)**	107
Cash provided by operating transactions	**99**	50
Capital transactions		
Acquisition of tangible capital assets (Note 8)	**(1,450)**	(6,698)
Cash applied to capital transactions	**(1,450)**	(6,698)
Financing transactions		
Increase in spent deferred capital contributions (Note 8)	**1,450**	6,698
Repayment of capital lease obligation (Note 12)	**(40)**	(40)
Cash provided by financing transactions	**1,410**	6,658
Increase in cash	**59**	10
Cash at beginning of year	**298**	288
Cash at end of year	**$ 357**	$ 298

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

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

1. AUTHORITY

Alberta Pensions Services Corporation (APS) is incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The issued share of the Corporation is owned by the President of Treasury Board and Minister of Finance (the Minister) on behalf of 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 Minister, operating under the authority of the Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000, is responsible for administering the following public sector pension plans:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)

The Minister, operating under the authority of the Provincial Court Act and the Court of Queen's Bench Act, Chapter 196, Regulation 2001, is responsible for administering the following public sector pension plans:

- Provincial Judges and Masters in Chambers (Registered) Pension Plan (Judges Registered Pension Plan)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Judges Unregistered Pension Plan)

The Minister, operating under the authority of the Members of the Legislative Assembly Pension Plan Act, Chapter M-12, Revised Statutes of Alberta 2000, is responsible for administering the following public sector pension plan:

- Members of the Legislative Assembly Pension Plan (MLAPP)

The Minister, operating under the authority of the Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000 and the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06), is responsible for administering the following public sector pension plan:

- Supplementary Retirement Plan for Public Service Managers (SRP)

Specific pensions services required by the pension plans and employers are provided by the Corporation pursuant to a Pensions Services Agreement with the Minister through to December 31, 2018. These services include the collection and recording of contributions, calculating and paying benefits, communicating to plan members and employers, pension plan board support services and risk management services. The Corporation also provides specific services, on a cost-recovery basis, for some employers (Note 6).

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.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

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	Lower of cost or net recoverable value
Accounts payable and 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 represent present obligations of the Corporation to external organizations and individuals arising from transactions or events occurring before the year end. 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 the year end;
- accrued employee vacation entitlements; and
- contingent liabilities where future liabilities are likely.

Non-financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

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.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

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. Note 12 provides a schedule of repayments and amount of interest on the leases.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Refer to (a) below
Compass system (b)	12 years
Furniture and equipment	5 years
Computer hardware and software	3 years
Telephone system	3 years

(a) Amortization is over the term of lease, up to a maximum of five years.

(b) The Compass system is the Corporation's pension administration system.

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, accounts payable and accrued liabilities, accrued salaries and benefits, and accrued vacation pay. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

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.

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.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

4. FUTURE ACCOUNTING CHANGES

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

- PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective for years beginning on or after April 1, 2017)
  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.
- PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective for years beginning on or after April 1, 2017)
  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.
- PS 3430 Restructuring Transactions (effective for years beginning on or after April 1, 2018)
  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

5. PLAN SPECIFIC SERVICES

(in thousands)

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

Plan	2017	2016
SFPP	**$ 1,068**	$ 863
PSPP	**988**	972
MEPP	**781**	772
SRP	**100**	61
LAPP	**73**	55
Judges Registered Pension Plan	**44**	15
PSM(CM)PP	**27**	30
Judges Unregistered Pension Plan	**21**	6
MLAPP	**8**	21
	$ 3,110	$ 2,795

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

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. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

Employer		2017		2016
City of Edmonton	**$**	**1**	$	1
EPCOR		**1**		1
Government of Alberta		**1**		1
Legislative Assembly / Alberta Health Services		**1**		2
		4		5
Alberta Investment Management Corporation[1]		**35**		75
	$	**39**	$	80

1 The Corporation entered into an agreement to provide certain administration services on a cost-recovery basis to Alberta Investment Management Corporation (AIMCo), a related Crown Corporation, in respect of an AIMCo supplementary retirement plan.

7. RECOVERY OF COSTS

(in thousands)

The Corporation charges each public sector pension plan with its proportionate share of the Corporation's operating and plan specific costs based on the allocation formula approved by the Minister. At December 31, 2017, $4,945 (2016 - $6,681) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

Plan		2017		2016
LAPP	**$**	**36,482**	$	36,466
PSPP		**13,038**		13,308
MEPP		**2,479**		2,471
SFPP		**2,121**		1,929
SRP		**756**		703
PSM(CM)PP		**282**		301
Judges Registered Pension Plan		**119**		90
Judges Unregistered Pension Plan		**96**		81
MLAPP		**58**		71
		55,431		55,420
Interest and other miscellaneous cost recoveries		**24**		23
Employer specific services (Note 6)		**39**		80
	$	**55,494**	$	55,523

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

8. TANGIBLE CAPITAL ASSETS

(in thousands)

						2017	2016
	Compass system	Computer hardware & software[2]	Leasehold improvements	Furniture & equipment	Telephone system	Total	Total
Estimated useful life	12 years	3 years	Note 3(b)	5 years	3 years		
Historical Cost[1]							
Beginning of year	$ 49,200	$ 7,001	$ 6,335	$ 1,484	$ 45	$ 64,065	$ 78,313
Additions	-	1,406	-	44	-	1,450	6,698
Disposals, including write-downs	-	(205)	-	-	-	(205)	(20,946)
	49,200	8,202	6,335	1,528	45	65,310	64,065
Accumulated Amortization							
Beginning of year	3,819	3,325	6,179	1,339	45	14,707	31,842
Amortization expense	4,018	1,417	86	75	-	5,596	3,811
Effect of disposals, including write-downs	-	(205)	-	-	-	(205)	(20,946)
	7,837	4,537	6,265	1,414	45	20,098	14,707
Net Book Value at December 31, 2017	$ 41,363	$ 3,665	$ 70	$ 114	$ -	$ 45,212	
Net Book Value at December 31, 2016	$ 45,381	$ 3,676	$ 156	$ 145	$ -		$ 49,358

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 assets under construction at December 31, 2017 totalling $1,385 (2016 - $2,432) comprised of computer hardware and software $1,385 (2016 - $1,162) and Compass system $nil (2016 - $1,270).

2 Cost of computer hardware under capital lease is $199 and related accumulated amortization is $77.

Financial Information

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

9. SHARE CAPITAL

		2017		2016
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 $3,611 for the year ended December 31, 2017 (2016 - $3,714). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2016, PSPP reported a surplus of $302,975 (2015 - deficiency of $133,188), MEPP reported a surplus of $402,033 (2015 - surplus of $299,051) and SRP had a deficiency of $50,020 (2015 - deficiency of $16,305).

11. RELATED PARTY TRANSACTIONS

(in thousands)

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

		2017		2016
SERVICE ALBERTA	**$**	**678**	$	1,114
Data processing, software licences, printing, postage and training				
TREASURY BOARD AND FINANCE		**142**		114
Risk management and insurance				
UNIVERSITY OF ALBERTA		**7**		6
Management training				
	$	**827**	$	1,234

At year end, $263 (2016 - $307) is payable to Service Alberta.

The Corporation also provided services to the pension plans and pension plan boards and committees as disclosed in Notes 5 and 7. These transactions are in the normal course of operations.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

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:

	Operating[1]	Capital[2]	Total
2018	$ 3,066	$ 40	$ 3,106
2019	1,379	40	1,419
2020	31	39	70
2021	-	-	-
2022	-	-	-
Thereafter	-	-	-
	$ 4,476	$ 119	$ 4,595

1 The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,868. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease.

In 2012, the Corporation entered into an agreement for consulting services related to a major pension services systems replacement project which was substantially completed by December 2016. Contractual obligations over the next year total $970.

2 The Corporation has entered into a lease agreement for computer hardware. The capital payments are fixed, equal annual payments at zero percent interest. The present value of these capital payments is recognized as a liability on the Statement of Financial Position.

13. CONTINGENT LIABILITIES

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, 2017 accruals totalling $nil (2016: $270) have been recognized as a liability.

APS has been named in 13 (2016: 11) claims, the outcomes of which 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 these claims, 1 (2016: 1) has a specified amount totalling $800 (2016: $800). The remaining 12 (2016 - 10) 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 indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

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 2017 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. 2017 BUDGET

The Corporation's 2017 budget was approved by the Board of Directors on November 29, 2016.

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, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the Members of the Alberta Securities Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

thousands of dollars	**At March 31, 2018**	At March 31, 2017
Financial Assets		
Cash (Note 3)	**17,691**	16,815
Accounts receivable	**29**	32
Restricted cash (Note 3)	**–**	535
Investments (Note 4)	**45,273**	29,198
	62,993	46,580
Liabilities		
Accounts payable and accrued liabilities	**5,606**	4,949
Lease inducements	**1,792**	1,898
Accrued pension liability (Note 6)	**9,814**	9,098
	17,212	15,945
Net Financial Assets	**45,781**	30,635
Non-Financial Assets		
Capital assets (Note 5)	**5,410**	5,429
Prepaid expenses	**197**	241
	5,607	5,670
Accumulated Surplus	**51,388**	36,305
Accumulated surplus is comprised of:		
Accumulated operating surplus	**51,352**	35,700
Accumulated remeasurement gains	**36**	605
	51,388	36,305

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

IAN BEDDIS
Chair of the Audit Committee

June 6, 2018

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

thousands of dollars			For year ended March 31
	2018	**2018**	2017
	Budget (Note 10)	**Actual**	Actual
Operating Surplus	**6,212**	**15,652**	12,565
Acquisition of capital assets	**(1,010)**	**(1,050)**	(580)
Amortization of capital assets	**1,250**	**1,067**	1,116
Losses (Gains) on sale of capital assets		**1**	(1)
Proceeds on sale of capital assets		**1**	1
Prepayment of expenses		**(467)**	(439)
Reduction of prepaid expenses		**511**	459
Net remeasurement gains (losses)		**(569)**	162
Increase in net financial assets	**6,452**	**15,146**	13,283
Net financial assets, beginning of year	**30,635**	**30,635**	17,352
Net financial assets, end of year	**37,087**	**45,781**	30,635

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

STATEMENT OF OPERATIONS

thousands of dollars			For year ended March 31
	2018	**2018**	2017
	Budget (Note 10)	**Actual**	Actual
Revenue			
Fees (Note 7)	**45,460**	**52,965**	48,336
Investment income (Note 4(C))	**1,000**	**1,818**	1,439
Other enforcement receipts (Note 7)	**500**	**503**	813
Administrative penalties (Note 3)	**250**	**71**	347
Conference and other	**13**	**35**	12
	47,223	**55,392**	50,947
Regulatory Expenses			
Salaries and benefits	**29,530**	**28,719**	27,971
Premises	**3,400**	**3,693**	3,318
Administration	**3,287**	**3,006**	2,697
Professional services	**2,809**	**2,540**	2,762
Amortization of capital assets (Note 5)	**1,250**	**1,067**	1,115
Investor education	**735**	**715**	519
	41,011	**39,740**	38,382
Operating Surplus	**6,212**	**15,652**	12,565
Accumulated Operating Surplus, beginning of year	**35,700**	**35,700**	23,135
Accumulated Operating Surplus, end of year	**41,912**	**51,352**	35,700

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

STATEMENT OF REMEASUREMENT GAINS AND LOSSES (NOTE 4)

thousands of dollars		For year ended March 31
	2018	2017
Accumulated remeasurement gains, beginning of year	**605**	443
Unrealized gains (losses) on investments during the year	**(304)**	206
Less: Amounts reclassified during the year to the Statement of Operations	**(265)**	(44)
Net remeasurement gains (losses) for the year	**(569)**	162
Accumulated remeasurement gains, end of year	**36**	605

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

STATEMENT OF CASH FLOWS

thousands of dollars	For year ended March 31	
	2018	2017
Operating Transactions		
Fees and other	**53,474**	48,510
Payments to and on behalf of employees	**(28,052)**	(27,047)
Payments to suppliers for goods and services	**(9,894)**	(8,968)
Investment income (Note 4(C))	**1,818**	1,439
Other enforcement receipts (Note 7)	**503**	813
Administrative penalties (Note 3)	**71**	347
Cash received from operating transactions	**17,920**	15,094
Capital Transactions		
Cash used to acquire capital assets	**(939)**	(388)
Proceeds on sale of capital assets	**1**	1
Cash used in capital transactions	**(938)**	(387)
Investing Transactions		
Decrease in restricted cash (Note 3)	**535**	161
Purchases of investments	**(16,641)**	(9,366)
Disposals of investments	**–**	1,300
Cash used in investing transactions	**(16,106)**	(7,905)
Increase in cash	**876**	6,802
Cash, beginning of year	**16,815**	10,013
Cash, end of year	**17,691**	16,815

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

Notes to the Financial Statements

March 31, 2018

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws. The ASC, as an Alberta provincial corporation, 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;
- 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; and
- the pools include derivative contracts that contain equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, and equity index futures contracts. The value of derivative contracts is included in the fair value of the pools.

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. 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 interest-bearing 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 represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the Statement of Remeasurement Gains and Losses. Changes in accumulated remeasurement gains 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, restricted cash, accounts receivable, accounts payable and accrued liabilities are recognized at cost or amortized cost. The fair values of each of these line items approximates their carrying values due to their short-term nature. 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, which includes amounts directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Capital assets are written down when conditions indicate that they no longer contribute to 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 8.3-year and one 15-year lease both 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.

The ASC established a retirement plan for one employee at the time of the transition to a provincial corporation. The employee is retired and the plan costs are fully provided for. During F2018, the ASC fulfilled its obligations under this plan.

The ASC maintains a supplemental pension plan for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on 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 of the supplemental pension plan is five years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan (RRSP) 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 RRSP 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 (8.3 years and 15 years, both ending November 30, 2025).

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 what, if any, subsequent recoveries may occur.

J) Restricted Cash

The *Securities Act* (Alberta) restricts the use of revenue the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

K) Change in Accounting Policies

The ASC has prospectively adopted the following standards effective April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets (PS 3320) and PS 3380 Contractual Rights (PS 3380). These are reflected in Notes 2 and 11. PS 3320 and PS 3380 did not have any impact to the ASC's financial statements.

L) Future Accounting Changes

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

PS3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

PS3280 Asset Retirement Obligations (effective April 1, 2021)

Effective April 1, 2021, 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 these standards on the ASC's financial statements. At this time, management does not anticipate any material changes.

NOTE 3 CASH AND RESTRICTED CASH

thousands of dollars	**2018**	2017
Cash	**17,691**	16,815
Restricted Cash	**–**	535

Net financial assets include accumulated net administrative penalty revenue represented as restricted cash. The change in restricted cash is comprised of:

thousands of dollars	**2018**	2017
Administrative Penalties		
Assessed penalties	**780**	1,040
Less provision for uncollectible amounts	**(773)**	(1,005)
Plus recoveries of prior-year assessments	**58**	306
	65	341
Interest income and other	**6**	6
Administrative penalties	**71**	347
Plus conference fees	**34**	11
Less eligible restricted cash expenses (investor education)	**(640)**	(519)
Decrease in restricted cash	**(535)**	(161)
Restricted cash, beginning of year	**535**	696
Restricted cash, end of year	**–**	535

Cash and restricted cash consist of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. As at March 31, 2018, the ASC received an annualized return of 1.1 per cent (0.9 per cent in F2017).

NOTE 4 INVESTMENTS

A) Summary

thousands of dollars	**2018**				2017		
Investments	**Cost**	**Remeasurement Gains (Losses)**	**Fair Value**	**%**	**Cost**	**Fair Value**	**%**
Fixed-income securities	31,885	(298)	31,587	69.8	21,870	21,785	74.6
Global equities	10,150	181	10,331	22.8	–	–	–
Canadian equities	2,974	153	3,127	6.9	6,642	7,332	25.1
CCITF deposit	228	–	228	0.5	81	81	0.3
	45,237	36	45,273	100.0	28,593	29,198	100.0

At March 31, 2018, 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. The Canadian and global equities pools hold units in these equity pools.

Fair Value Hierarchy

The table below provides a summary of management's estimate of the relative reliability of data or inputs used to measure the fair value of the ASC's investments. The measure of reliability is determined based on the following:

I. **LEVEL ONE:**

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

II. **LEVEL TWO:**

Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

III. **LEVEL THREE:**

Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. For these investments, trading activity is infrequent and fair values are derived using valuation techniques.

thousands of dollars	Level One	Level Two	Level Three	**Total**
Fixed-income securities	–	31,587	–	**31,587**
Global equities	7,728	623	1,980	**10,331**
Canadian equities	2,376	142	609	**3,127**
CCITF deposit	–	228	–	**228**
	10,104	32,580	2,589	**45,273**
	22.3%	72.0%	5.7%	**100.0%**

thousands of dollars	March 31, 2018
Reconciliation of Level 3 Investments	
Balance, beginning of year	**1,332**
Unrealized gains	**76**
Purchases of Level 3 pooled fund units	**1,279**
Sales of Level 3 pooled fund units	**(98)**
Balance, end of year	**2,589**

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 at March 31:

Credit Rating	2018	2017
Investment Grade (AAA to BBB-)	**99.2%**	99.9%
Speculative Grade (BB+ or lower)	**0.7%**	0.3%
Unrated	**0.1%**	(0.2%)
	100.0%	100.0%

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, 2018**		March 31, 2017	
Currency	**Fair Value**	**Sensitivity***	**Fair Value**	**Sensitivity***
U.S. Dollar	**6,270**	**627**	(23)	(2)
Euro	**1,240**	**124**	69	7
Japanese Yen	**870**	**87**	(17)	(2)
British Pound Sterling	**630**	**63**	(24)	(2)
Swiss Franc	**270**	**27**	(48)	(5)
Australian Dollar	**240**	**24**	5	1
Other Foreign Currency	**430**	**43**	33	3
Total Foreign Currency Investments	**9,950**	**995**	(5)	–

**Sensitivity refers to the fair value impact when the value of the Canadian dollar increases by 10% against all other currencies, with all other variables held constant.*

III. **INTEREST RATE RISK**

The ASC is exposed to interest rate risk associated with the underlying interest-bearing 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 interest-bearing 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 5.0 per cent of total investments (4.8 per cent in F2017).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2018.

	<1 year	**1–5 years**	**Over 5 years**	**Repurchase Agreements ****
Interest-bearing securities	16.7%	47.9%	64.3%	(28.9%)

***All repurchase agreements are less than 1 year.*

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 3.3 per cent of total investments (2.5 per cent in F2017).

V. LIQUIDITY RISK

Liquidity risk is the risk that 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 included $832,000 from interest-bearing securities ($1.0 million in F2017) and $986,000 from equities ($432,000 in F2017). The ASC's investments earned a return of 3.9 per cent for the year ended March 31, 2018 (7.1 per cent in F2017). 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 3.1 per cent in F2018 and a benchmark return of 5.7 per cent in F2017.

NOTE 5 CAPITAL ASSETS

thousands of dollars	Computer Equipment & Software	Furniture & Equipment	Leaseholds	2018 Total	2017 Total
Estimated useful life	3 years	10 years	Lease duration		
Cost					
Beginning of year	**3,572**	**2,745**	**6,703**	**13,020**	12,599
Additions	**601**	**148**	**301**	**1,050**	580
Disposals	**(368)**	**–**	**–**	**(368)**	(159)
	3,805	**2,893**	**7,004**	**13,702**	13,020
Accumulated amortization					
Beginning of year	**2,910**	**1,730**	**2,951**	**7,591**	6,634
Amortization expense	**354**	**253**	**460**	**1,067**	1,116
Disposals	**(366)**	**–**	**–**	**(366)**	(159)
	2,898	**1,983**	**3,411**	**8,292**	7,591
Net book value	**907**	**910**	**3,593**	**5,410**	5,429

Leaseholds relate to a 15-year lease commenced on December 1, 2010 and an 8.3-year lease commenced on August 1, 2017.

NOTE 6 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

thousands of dollars	2018	2017
Supplemental Pension Plan	**9,814**	9,088
Retirement Plan	**–**	10
	9,814	9,098

The following pension expense for the plans is included in the Statement of Operations under salaries and benefits:

thousands of dollars	2018	2017
Public Service Pension Plan	**1,316**	1,286
Registered Retirement Savings Plan (RRSP)	**674**	662
Supplemental Pension Plan	**1,050**	1,098
	3,040	3,046

A) Retirement Plan

The Retirement Plan was fully paid out in August 2017.

B) Public Service Pension Plan

The ASC participates in the Public Service Pension Plan. At December 31, 2017, the Public Service Pension Plan reported a surplus of $1.3 billion (a surplus of $303.0 million as at December 31, 2016). The ASC is not responsible for future funding of any plan deficit other than through contribution increases.

C) RRSP

The ASC makes RRSP contributions on behalf of employees who do not participate in the Public Service Pension Plan.

D) Supplemental Pension Plan

The ASC has a Supplemental Pension Plan for certain designated executives of the ASC. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Supplemental Pension Plan provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the ASC. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service.

The Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

An actuarial valuation of the Supplemental Pension Plan is undertaken every three years. In March 2018, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 2021. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

thousands of dollars	**2018**	2017
Supplemental Pension Plan		
Accrued benefit and unfunded obligation	**9,262**	9,934
Unamortized actuarial gain (loss)	**552**	(846)
Accrued benefit liability	**9,814**	9,088

thousands of dollars	**2018**	2017
Accrued Benefit Obligation		
Accrued benefit obligation at beginning of year	**9,934**	9,505
Service cost	**300**	370
Interest cost	**350**	327
Benefits paid	**(325)**	(268)
Actuarial gain – experience & assumptions	**(997)**	–
Accrued benefit obligation at end of year	**9,262**	9,934

thousands of dollars	**2018**	2017
Pension Expense for the Supplemental Pension Plan		
Service cost	**300**	370
Interest cost	**350**	327
Amortization of actuarial losses during the year	**400**	401
	1,050	1,098

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

Assumptions	2018	2017
Discount rate, year-end obligation	**3.25%**	3.25%
Discount rate, annual pension expense	**3.25%**	3.25%
Rate of inflation, year-end obligation	**2.00%**	2.25%
Salary increases, year-end obligation*	**2.50%**	3.00%
Remaining service life, year-end obligation	**5 years**	5 years

**0.0 per cent per year for the fiscal years beginning April 1, 2018 and April 1, 2019, and 2.5 per cent thereafter.*

NOTE 7 FEES AND OTHER ENFORCEMENT RECEIPTS

thousands of dollars	2018	2017
Fees		
Annual financial statements	**19,581**	16,363
Registration	**16,382**	14,889
Distribution of securities	**16,239**	16,195
SEDI, exempt distributions & registration late filing fees	**656**	748
Orders (applications)	**107**	141
	52,965	48,336

thousands of dollars	2018	2017
Other Enforcement Receipts		
Settlement payments, disgorgements and cost recoveries assessed	**362**	2,813
Less provision for uncollectible amounts	**(251)**	(2,060)
Plus recoveries of prior-year assessments	**392**	60
	503	813

NOTE 8 CSA NATIONAL SYSTEMS

The CSA National Systems are comprised of the following: System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and 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. 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. Alternatively, 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, 2018 the accumulated operating surplus totalled $162.9 million ($151.7 million at March 31, 2017). This was primarily made up of $115.3 million of marketable securities held in one-year and 15-month term deposits earning 1.8 per cent to 2.4 per cent and an investment account which pays interest at Bank of Canada overnight rate plus 0.5 per cent, $22.6 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and $18.4 million in intangible assets. In management's judgment, this arrangement is not a government 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 are associated primarily with the lease of premises to November 30, 2025 and rental of office equipment to 2022 totalling $37.0 million ($31.4 million in F2017). These commitments become expenses of the ASC when the terms of the contracts are met.

thousands of dollars	
2018–19	4,490
2019–20	4,578
2020–21	4,719
2021–22	4,892
2022–23	4,934
Thereafter	13,420
Total	37,033

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 F2018 budget was approved by the Commission on December 14, 2016.

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. The total transaction costs of $69,000 ($55,000 in F2017) were recognized in administration and investor education expenses, primarily for transcript and postage services as well as insurance. As at March 31, 2018, $500 ($8,000 in F2017) related to these transactions was outstanding in accounts payable.

NOTE 12 COMPARATIVE FIGURES

Certain F2017 figures have been reclassified to conform to the F2018 presentation.

Schedule 1 – Salary & Benefits Disclosure

thousands of dollars				2018	2017
	Base salary[1]	**Other Cash benefits[2]**	**Other Non-cash benefits[3]**	**Total**	Total
Chair and Chief Executive Officer (CEO), Alberta Securities Commission[4]	**491**	**–**	**14**	**505**	381
Executive Director, Alberta Securities Commission	**379**	**64**	**235**	**678**	651
Vice-Chair, Alberta Securities Commission[4,5]	**375**	**59**	**49**	**483**	504
Vice-Chair, Alberta Securities Commission[4,6]	**–**	**–**	**–**	**–**	592
Independent Members of the Alberta Securities Commission (aggregate)[7]	**597**	**–**	**–**	**597**	518

[1] Base salary includes regular salary or independent members' compensation.

[2] Other cash benefits may include variable pay, transit allowance, memberships and automobile allowance.

[3] Other non-cash benefits may include employer's share of all employee benefits and contributions or payments made on behalf of employees, including RRSP, supplementary pension plans, 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. The Chair and CEO's term commenced on July 4, 2016, which fell in fiscal 2017.

[5] This Vice-Chair does not participate in the Supplemental Pension Plan (SPP), but participates in the RRSP program. This RRSP benefit is reported under Other Non-cash benefits. This Vice-Chair assumed the role of interim Chair & CEO from October 1, 2015 to July 3, 2016.

[6] This Vice-Chair retired on March 31, 2017. This position was vacant during F2018.

[7] The Independent Members' compensation includes total fees paid for governance responsibilities of $328,000 ($308,000 in F2017) and hearing and application panel participation of $269,000 ($210,000 in F2017).

Independent Member fees include:

	2018
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 supplemental pension plan (SPP), executive officers may receive supplemental pension payments. SPP 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 Pension Benefits

ANNUAL EXPENSE

thousands of dollars			2018	2017
	Current service costs	Prior service and other costs	Total	Total
Chair and CEO, Alberta Securities Commission[1]	–	–	–	–
Executive Director, Alberta Securities Commission	82	101	183	176
Vice-Chair, Alberta Securities Commission[2]	–	–	–	–
Vice-Chair, Alberta Securities Commission[3]	–	–	–	173

The accrued obligation for each executive under the SPP is outlined in the following table:

ACCRUED OBLIGATIONS

thousands of dollars	Accrued obligation March 31, 2017	Changes in accrued obligation	Accrued obligation March 31, 2018
Chair and CEO, Alberta Securities Commission[1]	–	–	–
Executive Director, Alberta Securities Commission	1,698	(162)	1,536
Vice-Chair, Alberta Securities Commission[2]	–	–	–
Vice-Chair, Alberta Securities Commission[3]	–	–	–

[1] The Chair and CEO does not participate in the SPP.

[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 retired on March 31, 2017. This position was vacant during F2018. An expense of $173,000 in F2017 and an accrued obligation of $1,149,000 as at March 31, 2017 relates to this Vice-Chair.

N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the Shareholder of N.A Properties (1994) Ltd.

Report on the Financial Statements

I have audited the accompanying financial statements of N.A Properties (1994) Ltd., which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of N.A Properties (1994) Ltd. as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands) 2018	2017
Financial Assets		
Cash and cash equivalents (Note 4)	$ 3,142	$ 3,108
Note receivable (Note 5)	158	132
	3,300	3,240
Liabilities		
Obligations under indemnities and commitments (Note 6)	63	83
Net Financial Assets and Net Assets		
Net assets (Note 7)	$ 3,237	$ 3,157

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, 2018

	($ thousands) 2018	2017
Net operating surplus	$ 80	$ 68
Increase in Net Financial Assets	80	68
Net Financial Assets, Beginning of year	3,157	3,089
Net Financial Assets, End of Year	$ 3,237	$ 3,157

The accompanying notes are part of these financial statements.

Statement of Operations and Surplus

Year Ended March 31, 2018

	($ thousands)	
	2018	**2017**
Revenues		
Interest and other	$ 60	$ 49
Operating income before provision	60	49
Recovery of obligations under indemnities and commitments (Note 6)	20	19
Annual surplus	80	68
Net assets, beginning of year	3,157	3,089
Net assets, end of year	$ 3,237	$ 3,157

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2018
(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.

The Company also manages indemnities described in Note 6.

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) CHANGE IN ACCOUNTING POLICY

The Department has prospectively adopted the following standards from April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights.

e) FUTURE ACCOUNTING CHANGES

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

• PS 3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/ or liabilities, together with related program or operating responsibilities.

• PS 3280 Asset Retirement Obligations (effective April 1, 2021)

Effective April 1, 2021, 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 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, 2018 the deposits in the bank had a time weighted return of 1.1% per annum (2017: 0.9%) 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, 2018 is $158 (2017: $132). 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 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $63 at March 31, 2018 (2017: $83). The Company's indemnities expire in May 2019. The Company estimates its liability under the indemnities annually, based on its assessment of the mortgages.

Changes in the Company's obligations under indemnities and commitments are as follows.

	($ thousands) 2018	2017
Beginning balance	$ 83	$ 102
Recovery of obligations under indemnities and commitments	(20)	(19)
Ending balance	$ 63	$ 83

NOTE 7 NET ASSETS

Net assets consists of the following:

	($ thousands) 2018	2017
Share capital	$ 5,769	$ 5,769
Accumulated deficit	(2,532)	(2,612)
Net assets	$ 3,237	$ 3,157

Share capital consists of the following:

		($ thousands) 2018	2017
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

Authorized

Unlimited number of Class "A" voting shares
Unlimited number of Class "B" voting shares
Unlimited number of Class "C" non-voting shares
Unlimited number of Class "D" non-voting shares
Unlimited number of Class "E" voting shares
Unlimited number of Class "F" non-voting shares

NOTE 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.

Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no other related party transactions in the year ended March 31, 2018 nor for the prior year ended March 31, 2017.

NOTE 9 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2018 nor in the prior year 2017.

NOTE 10 BUDGET

The Company's annual budget appears in the 2017-18 Government Estimates. The budget projected a net excess of revenue over expenses for the year of $120. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

GAINERS INC.

Consolidated Financial Statements

September 30, 2017

Auditor General OF ALBERTA

Independent Auditor's Report

To the Shareholder of Gainers Inc.

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Gainers Inc., which comprise the consolidated statement of financial position as at September 30, 2017, and the consolidated statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gainers Inc. as at September 30, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

January 25, 2018
Edmonton, Alberta

Consolidated Statement of Financial Position

As at September 30, 2017

	($ thousands) 2017	2016
Financial Assets		
Cash	$ 1	$ 1
Investment in and amount due from former affiliate (Note 3)	-	-
	$ 1	$ 1
Liabilities		
Accounts payable and accrued liabilities	$ 14	$ 11
Principal and interest on prior years income taxes (Note 4)	11,334	11,334
Long-term debt (Note 5)	193,327	193,224
	204,675	204,569
Net Debt and Net Liabilities		
Accumulated Liability (Note 7)	(204,674)	(204,568)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Change in Net Debt

Year ended September 30, 2017

	($ thousands) 2017	2016
Net operating deficit	$ (107)	$ (35)
Increase in Net Debt	(107)	(35)
Net Debt, Beginning of year	(204,568)	(204,533)
Net Debt, End of Year	$ (204,675)	$ (204,568)

The accompanying notes are part of these financial statements.

Approved by the Board of Directors

[Original signed by]

Dan Harrington, Director

Consolidated Statement of Operations

Year ended September 30, 2017

	2017 Budget	2017 Actual	2016 Actual
	($ thousands)		
Expenses			
Legal expenses	$ -	$ 102	$ 29
General and administrative	-	5	6
Annual deficit	-	(107)	(35)
Accumulated deficit, beginning of year	-	(204,568)	(204,533)
Accumulated deficit, end of year	$ -	$ (204,675)	$ (204,568)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended September 30, 2017

	2017	2016
	($ thousands)	
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (107)	$ (35)
(Decrease) increase in payables	4	4
	(103)	(31)
Financing activities		
Proceeds from long-term debt	103	31
Change in cash	-	-
Cash, beginning of year	1	1
Cash, end of year	$ 1	$ 1

The accompanying notes are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

September 30, 2017
(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 and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $54,491. The amount of non-capital losses available for carry forward is $291. These non-capital losses expire between 2017 and 2037.

NOTE 5 LONG-TERM DEBT

	($ thousands) 2017	2016
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	14,028	13,925
Accrued interest	34,491	34,491
	$193,327	$193,224

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, 2017 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. Mr. Pocklington has filed for bankruptcy in California and the Province has registered its claim in California.

NOTE 7 NET LIABILITIES

Net liabilities consists of the following:

	($ thousands)	
	2017	**2016**
Share capital	$ 1	$ 1
Accumulated deficit	(204,675)	(204,568)
Net liabilities	$ (204,674)	$ (204,567)

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)	
	2017	**2016**
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 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

Government Business Enterprises

Table of Contents

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ALBERTA GAMING AND LIQUOR COMMISSION

Financial Statements

March 31, 2018

Financial Information

Independent Auditor's Report

Auditor General OF ALBERTA

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Gaming and Liquor Commission, which comprise the statement of financial position as at March 31, 2018, and the statements of net income, comprehensive income, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Gaming and Liquor Commission as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 24, 2018
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of dollars)

	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	4	$ 170,617	$ 147,958
Trade and other receivables		34,153	18,789
Inventories and prepaid expenses	5	12,274	11,858
		217,044	178,605
Non-Current Assets			
Property and equipment	6	223,740	247,325
Intangible assets	7	44,316	28,106
Investment properties	8	127,755	88,508
Investment in Western Canada Lottery Corporation	2g & 15	35,457	36,101
		431,268	400,040
		$ 648,312	$ 578,645
LIABILITIES			
Current Liabilities			
Trade and other payables		$ 189,999	$ 160,287
Due to Alberta Lottery Fund	9	58,144	59,045
		248,143	219,332
Non-Current Liabilities			
Due to General Revenue Fund	10	360,526	322,509
Net defined benefit pension liability	2f & 11	49,115	62,364
		409,641	384,873
Accumulated Other Comprehensive Loss	11	(9,472)	(25,560)
		$ 648,312	$ 578,645

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

Approved by:

BOARD

[Original signed by]

Barbara Ritzen
Audit Committee Chair

MANAGEMENT

[Original signed by]

Alain Maisonneuve
President and Chief Executive Officer

STATEMENT OF NET INCOME

For the year ended March 31
(in thousands of dollars)

	Note	2018	2017
Liquor revenue		$ 2,577,823	$ 2,545,119
Liquor cost of sales		(1,686,340)	(1,667,977)
	12	891,483	877,142
Gaming revenue	12	1,736,064	1,731,841
		2,627,547	2,608,983
Commissions and federal payments	12	(430,635)	(430,201)
Operating expenses	13	(227,449)	(224,598)
Profit from Operations		1,969,463	1,954,184
Other revenue	14	14,596	15,164
Share of income from Western Canada Lottery Corporation	15	298,830	315,511
Net Income	2l & 12	2,282,889	2,284,859
Net income allocation to Alberta Lottery Fund	9	(1,416,872)	(1,429,604)
Net income allocation to General Revenue Fund	10	(866,017)	(855,255)
Net Income after Allocations		$ -	$ -

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	2018	2017
Net income	2l & 12	$ 2,282,889	$ 2,284,859
Other Comprehensive Income (Loss)			
Net actuarial gain (loss)	11	16,088	(1,612)
Comprehensive Income		$ 2,298,977	$ 2,283,247

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)

	2018	2017
Operating Activities		
Comprehensive income	$ 2,298,977	$ 2,283,247
Amortization	61,836	61,312
Loss on disposal of non-current assets	1,565	2,428
Write-down of intangible assets	-	871
(Decrease) increase in net defined benefit pension liability	(13,249)	3,458
Net change in non-cash working capital items:		
(Increase) decrease in trade and other receivables	(15,364)	10,743
Increase in inventories and prepaid expenses	(416)	(696)
Increase (decrease) in trade and other payables	29,712	(30,673)
	2,363,061	2,330,690
Transfers to Alberta Lottery Fund	(1,417,773)	(1,441,875)
Transfers to General Revenue Fund	(828,000)	(838,000)
Cash Provided by Operating Activities	117,288	50,815
Investing Activities		
Purchase of property and equipment	(31,716)	(48,443)
Purchase of intangible assets	(23,790)	(9,008)
Additions to investment properties	(39,801)	(46,917)
Proceeds on disposal of non-current assets	34	1,965
Net change in investment in Western Canada Lottery Corporation	644	(6,808)
Cash Used in Investing Activities	(94,629)	(109,211)
Net Increase (Decrease) in Cash During the Year	22,659	(58,396)
Cash, beginning of year	147,958	206,354
Cash, end of year	$ 170,617	$ 147,958
Supplemental Cash Flow information:		
Interest received	$ 1,857	$ 1,717

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 and Liquor Commission (AGLC) operates under the authority of the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. Under the *Gaming and Liquor Act*, the AGLC was established as a provincial Crown corporation governed by the Board appointed by the Lieutenant Governor in Council. The registered office is located at 50 Corriveau Avenue, St. Albert, Alberta.

The AGLC is an agency of the Government of Alberta which conducts and manages Provincial Lotteries, carries out functions respecting gaming under the *Criminal Code* (Canada), and controls, in accordance with legislation, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor for the Government of Alberta. As an agent of the Government of Alberta, the AGLC is not subject to federal or provincial corporate income taxes.

The AGLC also administers the Alberta Lottery Fund which was established under the *Interprovincial Lottery Act*, RSA 1980 cl-8.

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).

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, the functional currency of the AGLC. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

The financial statements for the year ended March 31, 2018 were authorized for issue by the Board on May 24, 2018.

b. Financial Instruments

Financial instruments are classified based on their characteristics and the intention of management upon their acquisition. They are recognized in the Statement of Financial Position when the AGLC becomes a party to the contractual terms of the instrument, which represents its trade date.

All financial instruments are initially recognized at fair value plus directly attributable transaction costs, and their subsequent measurement is dependent on their classification as outlined below.

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Due to Alberta Lottery Fund	Other financial liabilities
Due to General Revenue Fund	Other financial liabilities

Loans and receivables
Subsequent to initial recognition, loans and receivables continue to be measured at cost. Due to the short-term nature of these assets, the estimated fair value is considered to be equal to their carrying value.

Financial assets are derecognized when the right to receive cash flows from the asset has expired. Any difference in the carrying amounts of the asset is recognized in the Statement of Net Income.

Other financial liabilities
Subsequent to initial recognition, other financial liabilities continue to be measured at cost. Due to the short-term nature of these liabilities, the estimated fair value is considered to be equal to their carrying value.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or it expires. Any difference in the carrying amounts of the financial liability is recognized in the Statement of Net Income.

Impairment
Financial assets and liabilities are assessed for indicators of impairment on an annual basis. If there is objective evidence that an impairment exists, the loss is recognized in the Statement of Net Income. An impairment loss is measured as the difference between the carrying value and the current fair value.

c. Inventories

Gaming parts and supplies are valued at weighted average cost which is not in excess of net realizable value.

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.

d. Property, Equipment and Intangible Assets

Property, equipment and intangible assets are reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of assets, with no amortization calculated on assets under construction or development. 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. 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 the 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 in 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.

e. Investment Properties

Investment properties are comprised of land, building or a combination thereof, that are held by the owner to earn rental income. They include the distribution and storage facility located in St. Albert (50 Corriveau Avenue), currently leased to Connect Logistics Services Inc., as well as the liquor distribution centre under construction in St. Albert (2 Boudreau Road).

Investment properties are initially recognized at cost, and are subsequently carried at cost less accumulated amortization. Amortization is calculated on a straight line basis over the estimated useful life of assets, with no amortization calculated on assets under construction or development. 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. Land is not amortized.

f. Defined Benefit Pension Plan

The 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 several assumptions. An expense and associated liability for benefits earned are recognized in the period that employee service has been rendered. Under defined benefit pension plan accounting, the AGLC must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, re-measurement amounts and service cost.

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. Re-measurement 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.

g. Investment in an Associate – Western Canada Lottery Corporation

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on April 16, 1974. 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. The Yukon Territory, the Northwest Territories and Nunavut participate as associate members.

The AGLC has significant influence, but no control or joint control, over the financial and operating policy decisions of the WCLC. As a result, the 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 the AGLC's share of net assets of WCLC.

The Statement of Net Income reflects the AGLC's share of the results of WCLC's operations. Where there has been a change recognized directly in the equity of WCLC, the AGLC recognizes its share of any changes and discloses this,

when applicable, in Due to Alberta Lottery Fund. Unrealized gains and losses resulting from transactions between the 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 the AGLC. Where necessary, adjustments are made to bring the accounting policies into conformity with those of the AGLC.

If there were indicators that the investment in WCLC is impaired, the 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, the 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.

h. Revenue and Expense Recognition

Revenue from casino gaming terminals, video lottery terminals and personal-play electronic bingo is based on bets placed and is recognized at the time when play was completed and all credits were played or converted to cash. Revenue from play-along electronic bingo is recognized at the time of purchase of the cards. Prizes, commissions and federal payments are recognized on the same basis as related revenues.

Revenue from sale of liquor is recognized when goods are shipped and title has passed to the customer. Revenue received in advance of shipment is classified as deferred revenue. Cost of product sold is recognized on the same basis as related revenues.

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, the 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 an asset's fair value less costs to sell and 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, the AGLC would estimate the recoverable amount. A previously recognized impairment loss is reversed only 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 be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or 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. Federal Taxes

As a Crown agent of the Government of Alberta, the AGLC has a tax-exempt status. However, under the *Excise Tax Act* and *Games of Chance (GST/HST) Regulations*, the AGLC is required to pay GST and Federal Tax on gaming operations.

k. Operating Expenses

Operating expenses are allocated against Provincial Lotteries Revenue or Liquor and Other Revenue based on the nature of the expense.

l. Allocation of Net Income

The *Gaming and Liquor Act* requires the AGLC to transfer the net income to the Alberta Lottery Fund and the General Revenue Fund.

Net income arising from the conduct of authorized casino gaming, video lottery, lottery ticket, and electronic bingo in Alberta is transferred to the Alberta Lottery Fund. Note 9 discloses further information on amounts due to the Alberta Lottery Fund.

Net income from liquor operations and other revenue is transferred to the General Revenue Fund. Note 10 provides additional information regarding the amount due to the General Revenue Fund.

m. 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, the 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.

n. 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 management reasonably expects to be applicable at a future date.

IFRS 9 *Financial Instruments* – Issued on July 24, 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2018, with early adoption permitted. The Standard includes requirements for recognition, measurement, impairment and de-recognition of financial instruments, as well as guidance on hedge accounting. An assessment of the impact of applying IFRS 9 is underway however management has not identified any material differences from its current accounting practice related to financial instruments. The AGLC does not currently hold hedging instruments. The standard will be adopted in the period beginning April 1, 2018 using the retrospective approach.

IFRS 15 *Revenue from Contracts with Customers* – Issued on May 28, 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2018. The Standard provides framework for recognition, measurement and disclosure of revenue and cash flows arising from contracts with customers, as well as requirements for entities to provide users of financial statements with more informative and relevant revenue-related disclosures. An assessment of the impact of applying IFRS 15 is underway however, apart from providing more extensive disclosures related to revenue transactions, management has not identified any material differences from its current revenue measurement and recognition practice. The AGLC will adopt the standard in the period beginning April 1, 2018 using the modified retrospective approach.

IFRS 16 *Leases* – Issued on January 13, 2016, mandatorily effective for annual reporting periods commencing on or after January 1, 2019. The Standard sets out the principles for recognition, measurement, presentation and disclosure of leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The AGLC will adopt IFRS 16 in the period beginning April 1, 2019 and management is currently assessing the impact of adoption of this standard.

3. 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 amount of the affected asset or liability 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.

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. The 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.

4. 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. Additionally, cash and cash equivalents include the proceeds from table games which the AGLC holds on behalf of charities; further details are provided in Note 18.

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, 2018, securities held by the CCITF had a time-weighted yield of 1.1% per annum (March 31, 2017: 0.9% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

5. Inventories and Prepaid Expenses

	2018	2017
Inventories	$ 10,777	$ 10,232
Prepaid expenses	1,497	1,626
	$ 12,274	$ 11,858

6. Property and Equipment

	2018					2017
	Land	Buildings and Leasehold Improvements	Equipment and Computer Hardware	Gaming Equipment and Terminals	Total	Total
Cost, beginning of year	$ 2,057	$ 39,827	$ 40,568	$ 477,141	$ 559,593	$ 528,552
Additions	-	400	2,509	28,807	31,716	48,443
Adjustments	-	(107)	-	-	(107)	-
Disposals	-	(4)	(3,864)	(30,827)	(34,695)	(17,402)
Cost, end of year	2,057	40,116	39,213	475,121	556,507	559,593
Accumulated amortization, beginning of year	-	(23,445)	(27,061)	(261,762)	(312,268)	(274,018)
Additions	-	(1,105)	(4,171)	(48,473)	(53,749)	(51,579)
Disposals	-	3	3,864	29,383	33,250	13,329
Accumulated amortization, end of year	-	(24,547)	(27,368)	(280,852)	(332,767)	(312,268)
Net book value, end of year	$ 2,057	$ 15,569	$ 11,845	$ 194,269	$ 223,740	$ 247,325

The estimated useful lives for each asset category are as follows:

Buildings	Up to 40 years
Leasehold improvements	Lease term
Equipment (including vehicles)	Up to 10 years
Computer hardware	Up to 10 years
Gaming equipment and terminals	Up to 8 years

7. Intangible Assets

	2018				2017
	Computer Software	Gaming Software	Work in Progress	Total	Total
Cost, beginning of year	$ 29,160	$ 35,431	$ 7,271	$ 71,862	$ 64,386
Additions	2,302	631	20,857	23,790	9,008
Adjustments	910	(624)	(286)	-	-
Disposals/write-downs	-	(2,315)	-	(2,315)	(1,532)
Cost, end of year	32,372	33,123	27,842	93,337	71,862
Accumulated amortization, beginning of year	(21,308)	(22,448)	-	(43,756)	(35,171)
Additions	(2,214)	(5,212)	-	(7,426)	(8,926)
Adjustments	1,676	(1,676)	-	-	-
Disposals/write-downs	-	2,161	-	2,161	341
Accumulated amortization, end of year	(21,846)	(27,175)	-	(49,021)	(43,756)
Net book value, end of year	$ 10,526	$ 5,948	$ 27,842	$ 44,316	$ 28,106

The estimated useful lives for each asset category are as follows:

Computer software	Up to 10 years
Gaming software	5 years

8. Investment Properties

	2018				2017
	Land	Buildings	Work in Progress	Total	Total
Cost, beginning of year	$ 21,126	$ 31,738	$ 60,420	$ 113,284	$ 66,367
Additions	-	180	39,621	39,801	46,917
Adjustments	-	2	105	107	-
Disposals	-	(4)	-	(4)	-
Cost, end of year	21,126	31,916	100,146	153,188	113,284
Accumulated amortization, beginning of year	-	(24,776)	-	(24,776)	(23,969)
Additions	-	(660)	-	(660)	(807)
Disposals	-	3	-	3	-
Accumulated amortization, end of year	-	(25,433)	-	(25,433)	(24,776)
Net book value, end of year	$ 21,126	$ 6,483	$ 100,146	$ 127,755	$ 88,508

(a) The estimated useful life for the asset category is as follows:

Buildings	Up to 40 years

(b) The Liquor Distribution Centre under construction is classified as work in progress

(c) Net Profit from Investment Properties

	2018	2017
Rental income derived from investment properties	$ 3,149	$ 3,251
Direct operating expenses (including repair and maintenance)	(1,131)	(1,179)
Net profit arising from investment properties	$ 2,018	$ 2,072

Estimated rental income for the current lease term expiring on March 31, 2019 is:

2018-19	$ 2,640

(d) Fair Value of Investment Properties

	2018	2017
Fair value of investment properties	$ 167,146	$ 131,770

Investment properties are recorded and reported at cost.

The fair value is based on a valuation performed by Bourgeois Chin Associates Ltd., an accredited independent valuator. Bourgeois Chin Associates Ltd. has appropriate qualifications and recent experience in the valuation of similar properties.

The fair value valuation was performed on the distribution and storage facility at 50 Corriveau Avenue using income and direct comparison approaches, while the land purchased at 2 Boudreau Road for the construction of a liquor distribution centre was valued using the direct comparison approach. The valuation did not include the liquor distribution centre currently under construction as the $100.1 million in costs incurred to-date are assumed to equal the current fair market value. Both properties are located in St. Albert, Alberta.

9. Due to Alberta Lottery Fund

The *Gaming and Liquor Act* requires the AGLC to transfer the net income from Provincial Lotteries to the Alberta Lottery Fund. The amount below represents the portion of net income which has not been transferred to the Alberta Lottery Fund at year end due to timing of transfers.

	Note	2018	2017
Due to Alberta Lottery Fund, beginning of year		$ 59,045	$ 71,316
Net income allocation to Alberta Lottery Fund	12	1,416,872	1,429,604
Transfers to Alberta Lottery Fund		(1,417,773)	(1,441,875)
Due to Alberta Lottery Fund, end of year		$ 58,144	$ 59,045

Amounts due to Alberta Lottery Fund are unsecured, non-interest bearing and have no specific terms of repayment.

10. Due to General Revenue Fund

The *Gaming and Liquor Act* requires the AGLC to transfer the net income from liquor operations and other revenues to the General Revenue Fund. The amount below represents the portion of net income which has not been transferred to the General Revenue Fund.

	Note	2018	2017
Due to General Revenue Fund, beginning of year		$ 322,509	$ 305,254
Net income allocation to General Revenue Fund	12	866,017	855,255
Transfers to General Revenue Fund		(828,000)	(838,000)
Due to General Revenue Fund, end of year		$ 360,526	$ 322,509

Amounts due to General Revenue Fund are unsecured, non-interest bearing and have no specific terms of repayment. The AGLC does not expect to pay the total amount owing to General Revenue Fund during the next fiscal year as the AGLC retains funds to maintain a sufficient level of liquidity to support its business operations.

11. Employee Benefit Plans

Change in Net Defined Benefit Pension Liability

	2018				2017
	PSPP	MEPP	SRP	Total	Total
Change in Fair Value of Plan Assets					
Fair value of plan assets, beginning of year	$ 133,685	$ 55,133	$ 2,135	$ 190,953	$ 171,377
Employer contributions	7,719	2,030	41	9,790	10,485
Benefits paid	(8,280)	(2,645)	(75)	(11,000)	(7,895)
Interest income	4,803	1,919	83	6,805	6,222
Actuarial gain (loss) on plan assets	7,117	1,283	(1,014)	7,386	10,764
Fair value of plan assets, end of year	$ 145,044	$ 57,720	$ 1,170	$ 203,934	$ 190,953
Change in Defined Benefit Obligation					
Defined benefit obligation, beginning of year	$ 181,250	$ 69,069	$ 2,998	$ 253,317	$ 230,283
Current-service cost	7,793	2,525	68	10,386	10,213
Benefits paid	(8,280)	(2,645)	(75)	(11,000)	(7,895)
Interest expense	6,516	2,415	117	9,048	8,340
Actuarial (gain) loss on plan liabilities	(4,714)	(2,626)	(1,362)	(8,702)	12,376
Defined benefit obligation, end of year	$ 182,565	$ 68,738	$ 1,746	$ 253,049	$ 253,317
Net Defined Benefit Pension Liability	$ (37,521)	$ (11,018)	$ (576)	$ (49,115)	$ (62,364)

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 the AGLC are 50% for PSPP, 57% for MEPP, and 64% for SRP.

Accumulated Other Comprehensive Loss (AOCL)

	2018				2017
	PSPP	MEPP	SRP	Total	Total
Actuarial (gain) loss on plan assets	$ (7,117)	$ (1,283)	$ 1,014	$ (7,386)	$ (10,764)
Actuarial (gain) loss on plan liabilities	(4,714)	(2,626)	(1,362)	(8,702)	12,376
Net actuarial (gain) loss	(11,831)	(3,909)	(348)	(16,088)	1,612
AOCL, beginning of year	19,634	5,278	648	25,560	23,948
AOCL, end of year	$ 7,803	$ 1,369	$ 300	$ 9,472	$ 25,560

Pension Expense

	2018				2017
	PSPP	MEPP	SRP	Total	Total
Current service cost (employer)	$ 7,793	$ 2,525	$ 68	$ 10,386	$ 10,213
Interest expense	6,516	2,415	117	9,048	8,340
Interest income	(4,803)	(1,919)	(83)	(6,805)	(6,222)
Pension Expense	$ 9,506	$ 3,021	$ 102	$ 12,629	$ 12,331

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:

	2018			2017		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Discount rate:	3.40%	3.40%	3.60%	3.60%	3.50%	3.90%
Inflation rate:	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Average wage increases:	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
AGLC's share of plan payroll:	2.14%	1.98%	0.97%	2.22%	2.07%	1.90%
Date of the most recent actuarial valuation:	Dec. 31,2016	Dec. 31,2015	Dec. 31,2016	Dec. 31,2014	Dec. 31,2015	Dec. 31,2015
AGLC's expected contributions for the next period – all plans:		$ 11,000			$ 10,353	

Additional assumptions are described in the valuation reports for each of the respective plans.

	2018			2017		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Estimated sensitivity of liabilities to a 1% change in the discount rate:	13.00%	12.80%	19.10%	14.20%	13.50%	18.90%
Estimated sensitivity of liabilities to a 1% change in the inflation rate:	7.30%	7.40%	8.90%	7.70%	7.10%	8.00%

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 etc.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, the 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 government.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

12. Gaming and Liquor Operating Results

Management monitors the operating results of the revenue sectors in order to make decisions about resource allocation and performance assessment. Operating expenses are not allocated to the individual revenue sectors, but are allocated between Provincial Lotteries revenue and liquor and other revenue as set out in the *Gaming and Liquor Act.*

	2018						2017
	Provincial Lotteries				Liquor and Other	Total	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal			
Net sales	$ 1,126,508	$ 598,074	$ 11,482	$ 1,736,064	$ 891,483	$ 2,627,547	$ 2,608,983
Commissions							
Operators/retailers	(165,885)	(89,711)	(1,722)	(257,318)	-	(257,318)	(256,536)
Charities	(155,000)	-	(1,769)	(156,769)	-	(156,769)	(157,917)
Federal tax expense (b)	(10,653)	(5,709)	(186)	(16,548)	-	(16,548)	(15,748)
	(331,538)	(95,420)	(3,677)	(430,635)	-	(430,635)	(430,201)
Net revenue	$ 794,970	$ 502,654	$ 7,805	1,305,429	891,483	2,196,912	2,178,782
Operating expenses				(185,405)	(42,044)	(227,449)	(224,598)
Profit from operations				1,120,024	849,439	1,969,463	1,954,184
Other revenue				(1,982)	16,578	14,596	15,164
Share of income from Western Canada Lottery Corporation				298,830	-	298,830	315,511
Net income				$ 1,416,872	$ 866,017	$ 2,282,889	$ 2,284,859

(a) includes Keno charity commissions

(b) as prescribed by the *Games of Chance (GST/HST) Regulations* of the *Excise Tax Act* (Regulations) taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on casino gaming terminal, video lottery terminal and electronic bingo sales (imputed tax) 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.

13. Operating Expenses

	2018	2017
Salaries and benefits	$ 94,068	$ 94,215
Amortization	61,836	61,312
Leased gaming terminals	23,148	25,282
Equipment and vehicles	8,999	9,173
Data processing	7,906	6,923
Data communications	6,687	6,243
Fees and services	5,802	4,952
Property	4,060	3,561
Marketing and retailer relations	3,359	2,799
Freight and ticket product delivery	2,495	2,181
Net interest in net defined benefit pension liability	2,243	2,118
Travel and training	2,141	1,976
Insurance and bank charges	2,094	1,525
Stationery and supplies	1,530	1,468
Miscellaneous	870	724
Liquor product expense	211	146
	$ 227,449	$ 224,598

14. Other Revenue

	2018	2017
Licences	$ 7,323	$ 6,551
Premises rental revenue	3,149	3,251
Interest	1,857	1,717
Liquor levies	1,228	1,980
ProServe fees	1,165	1,194
Retailer service fees	721	712
Administrative sanctions	546	373
Miscellaneous	172	1,814
Loss on disposal of non-current assets	(1,565)	(2,428)
	$ 14,596	$ 15,164

15. Investment in Western Canada Lottery Corporation

The AGLC's interest in the Western Canada Lottery Corporation (WCLC) is based on Alberta's proportionate share of the WCLC's income derived from the sale or operation of interprovincial lottery games. The WCLC is a private entity that is not listed on any public exchange.

The following tables present summarized financial information of the AGLC's investment in the WCLC.

	2018	2017
WCLC Statement of Financial Position		
Current assets	$ 73,718	$ 89,726
Property and equipment	25,275	9,195
Intangible assets	8,457	8,716
	$ 107,450	$ 107,637
Current liabilities	$ 108,116	$ 108,133
Employee benefits	10,446	11,145
Equity	(11,112)	(11,641)
	$ 107,450	$ 107,637
Alberta's Proportionate Share of Revenue and Expenses		
Lottery sales, net (a)	$ 835,731	$ 865,529
Direct expenses (a)	(493,331)	(503,442)
Gross income	342,400	362,087
Operating expenses	(31,932)	(33,694)
Interest and other income	2,571	977
Net income from operations	313,039	329,370
Federal tax expense (a)	(5,017)	(4,775)
Payment to the Federal Government (b)	(9,192)	(9,084)
Share of Income from WCLC	$ 298,830	$ 315,511

(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 the 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

	2018	2017
Investment in WCLC, beginning of year	$ 36,101	$ 29,293
Share of income from WCLC	298,830	315,511
Advances received from WCLC	(299,474)	(308,703)
Investment in WCLC, end of year	$ 35,457	$ 36,101

16. Contractual Obligations

The AGLC has various obligations under long-term contracts, including service contracts and operating leases for buildings. The total expected payments for these obligations for each of the next five fiscal years and thereafter are as follows:

	2018	2017
2018	$ -	$ 70,934
2019	96,937	51,991
2020	45,029	17,244
2021	16,272	4,909
2022	6,861	4,753
2023	5,449	-
Thereafter	1,272	3,121
	$ 171,820	$ 152,952

17. Contingent Liabilities

The 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 appropriate adjustments have been made and the ultimate outcome is not expected to have material adverse effect in the financial position or operations of the AGLC.

The AGLC amended a lease agreement with a tenant on February 5, 2016. Under the terms of the amended agreement, the AGLC has agreed to assume certain third party premises leases for the remainder of the lease term, if a significant change in the terms of the tenant's appointment occurs before January 31, 2020. As at March 31, 2018, the AGLC's potential liability is $9.1 million (2017 - $17.3 million).

18. Funds under Administration

The AGLC manages the collection, investment and distribution of the charities' share of proceeds/losses from table games at licensed charitable casino events.

The share of proceeds/losses from these table games allocated to charities is established in policy and by agreement between the participating charity and the relevant casino operator. These allocations are collected by the 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 holding a licensed charitable casino event in the casino/region during the pooling period.

	2018	2017
Charitable proceeds	$ 16,897	$ 17,049
Held charitable proceeds	115	153
	$ 17,012	$ 17,202

19. Salaries and Benefits

The following table discloses the amounts earned by board members and senior executives in the years ended March 31:

		2018				2017
	Note	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Chair of the Board	d	$ 106	$ -	$ 1	$ 107	$ 123
Members of the Board	e	199	-	20	219	237
President and Chief Executive Officer	f	234	3	74	311	569
Vice Presidents (VP)						
VP, Gaming and Cannabis and Chief Operating Officer	g	209	4	66	279	247
VP, Corporate Services and Chief Financial Officer		189	1	48	238	249
VP, Human Resources and Employee Development		179	7	44	230	471
VP, Regulatory Services		179	1	42	222	384
VP, Liquor Services		175	3	42	220	225
VP, Corporate Strategic Services and Chief Risk Officer		166	10	41	217	78
VP, Information Technology and Chief Information Officer		172	-	42	214	316
VP, Corporate Responsibility and Reputation	h	136	1	30	167	-
VP, Charitable Gaming Program and Regulatory Research	i	-	-	-	-	332
Senior VP, Corporate Services	j	-	-	-	-	87

(a) Base salary 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) Other cash benefits consist of vacation payouts and wellness spending account payments. There were no bonuses paid during the year.

(c) Other non-cash benefits include the 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) Occupancy of the position changed on April 1, 2017 and June 28, 2017.

(e) At any given time the Board consists of no more than 6 members plus the Chair, whose remuneration is disclosed separately.

(f) Automobile benefit of $2 (2017 -$6) is included in other non-cash benefits.

(g) Position title and scope of responsibilities changed during the year.

(h) Position created on June 5, 2017.

(i) Position eliminated on February 28, 2017

(j) Position eliminated on July 15, 2016.

20. Financial Instruments and Risk Management

The AGLC's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, and payables to the Alberta Lottery Fund and the General Revenue Fund. The carrying values of the AGLC's financial instruments approximate their fair values, unless otherwise noted.

The AGLC is exposed to credit and liquidity risks from financial assets and liabilities. The AGLC actively manages the exposure to these risks.

Credit risk represents the loss that would be recognized if parties holding financial assets of the AGLC fail to honour their obligations or pay amounts due causing a financial loss. Credit risk is minimized as the AGLC does not have significant exposure to any individual retail entity.

Liquidity risk is the risk the AGLC would encounter difficulties in meeting its financial obligations as they fall due. The risk is reduced as the majority of the AGLC's operational activities involve cash sales and short-term accounts receivables. The AGLC relies on the funds generated from its operations to meet operating requirements and to finance capital investment. The risk is further mitigated by forecasting and assessing actual cash flow requirements on an on-going basis.

21. Related Party Transactions

The 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.

The AGLC reports to the President of Treasury Board, Minister of Finance. Any ministry, department, fund or entity the Minister is responsible for is a deemed related party to the AGLC. These include:

- Department of Treasury Board and Finance
- Alberta Risk Management Fund
- Alberta Lottery Fund
- General Revenue Fund

During the year, the AGLC made payments totalling $415 (2017 - $434) to Alberta Risk Management Fund. Transactions with the Alberta Lottery Fund are disclosed in Note 9 and transactions with the General Revenue Fund are disclosed in Note 10.

The Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 2g, is also a related party to the AGLC. Details of transactions with the WCLC are disclosed in Note 15. In addition to these transactions, the AGLC received $721 (2017 - $712) in retailer service fees from the WCLC.

The Board members of the AGLC, executive management and their close family members are related parties to the AGLC. Compensation for the Board members and executive management is disclosed in Note 19, while transactions with close family members are immaterial.

22. Approved Budget

The AGLC includes its annual budget in its business plan. On recommendation from the Board, the budget receives approval by the President of Treasury Board, Minister of Finance, and becomes part of the fiscal plan of the Government of Alberta.

	2018
Liquor revenue	$ 2,632,607
Liquor cost of sales	(1,726,944)
	905,663
Gaming revenue	1,776,654
	2,682,317
Commissions and federal payments (a)	(441,051)
Operating expenses	(244,476)
Profit from operations	1,996,790
Other revenue	16,271
Share of income from WCLC	308,173
Net income	$ 2,321,234
Other Comprehensive Loss	
Net actuarial loss	(11,500)
Comprehensive income	$ 2,309,734

(a) includes Keno charity commissions

23. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

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ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2018

These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2018 Annual Report. A complete copy of the ATB Financial Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ATB Financial website at www.atb.com.

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Consolidated Financial Statements
I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 24, 2018
Edmonton, Alberta

Consolidated Statement of Financial Position

As at March 31 *($ in thousands)*	Note	2018	2017
Assets			
Cash resources	6		
Cash		**$ 285,527**	$ 314,300
Interest-bearing deposits with financial institutions		**1,110,848**	647,549
		1,396,375	961,849
Securities	7		
Securities measured at fair value through net income		**4,760,130**	4,984,678
		4,760,130	4,984,678
Securities purchased under reverse repurchase agreements		**50,096**	450,661
Loans	8		
Business		**21,439,814**	19,046,406
Residential mortgages		**15,750,430**	14,947,751
Personal		**6,711,755**	6,622,936
Credit card		**718,065**	703,817
		44,620,064	41,320,910
Allowance for loan losses	9	**(509,024)**	(509,688)
		44,111,040	40,811,222
Other assets			
Derivative financial instruments	10	**576,712**	450,847
Property and equipment	11	**333,092**	362,750
Software and other intangibles	12	**292,796**	274,616
Other assets	13	**372,850**	250,663
		1,575,450	1,338,876
Total assets		**$ 51,893,091**	$ 48,547,286
Liabilities and equity			
Liabilities			
Deposits	14		
Personal		**$ 13,585,867**	$ 13,316,717
Business and other		**19,097,906**	20,611,043
		32,683,773	33,927,760
Other liabilities			
Securities sold under repurchase agreements		**790,827**	-
Wholesale borrowings	21	**4,656,469**	2,892,336
Collateralized borrowings	15	**8,408,453**	6,812,660
Derivative financial instruments	10	**673,162**	339,092
Other liabilities	16	**1,070,052**	1,083,711
		15,598,963	11,127,799
Subordinated debentures	17	**331,199**	344,441
Total liabilities		**48,613,935**	45,400,000
Equity			
Retained earnings		**3,453,844**	3,179,285
Non-controlling interest	27	**3,508**	-
Accumulated other comprehensive loss		**(178,196)**	(31,999)
Total equity		**3,279,156**	3,147,286
Total liabilities and equity		**$ 51,893,091**	$ 48,547,286

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

Approved by the board:

Original signed by
Brian Hesje
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	2018	2017
Interest income			
Loans		**$ 1,660,903**	$ 1,566,007
Interest-bearing deposits with financial institutions		**8,282**	4,436
Securities measured at fair value through net income		**49,672**	42,329
		1,718,857	1,612,772
Interest expense			
Deposits		**369,572**	339,768
Wholesale borrowings		**72,626**	64,537
Collateralized borrowings		**144,808**	113,466
Subordinated debentures		**9,471**	10,686
		596,477	528,457
Net interest income		**1,122,380**	1,084,315
Other income			
Investor Services		**186,394**	161,402
Service charges		**70,741**	68,114
Card fees		**59,079**	56,627
Credit fees		**46,864**	40,485
Insurance		**22,712**	18,887
Underwriting fees		**15,919**	-
Foreign exchange		**20,619**	8,919
Net gains on derivative financial instruments		**24,887**	18,311
Net gains on financial instruments at fair value through net income		**7,357**	11,436
Sundry		**5,963**	6,715
		460,535	390,896
Operating revenue		**1,582,915**	1,475,211
Provision for loan losses	9	**105,006**	234,989
Non-interest expenses			
Salaries and employee benefits	18, 19	**589,488**	542,290
Data processing		**104,759**	94,711
Premises and occupancy, including depreciation		**91,482**	93,841
Professional and consulting costs		**72,627**	58,933
Deposit guarantee fee	14	**41,594**	42,778
Equipment, including depreciation		**26,114**	26,197
Software and other intangibles amortization	12	**70,068**	58,167
General and administrative		**65,037**	69,847
ATB agencies		**12,092**	11,011
Other		**48,438**	46,629
		1,121,699	1,044,404
Net income before payment in lieu of tax		**356,210**	195,818
Payment in lieu of tax[(1)]	20	**81,651**	45,038
Net income		**$ 274,559**	$ 150,780
Net income attributable to non-controlling interests	27	**$ 1,372**	$ -

[(1)] Included in payment in lieu of taxes is $0.6 million for AltaCorp Capital Inc.'s income taxes.

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 *($ in thousands)*	2018	2017
Net income	**$ 274,559**	$ 150,780
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Unrealized net gains on derivative financial instruments designated as cash flow hedges:		
Unrealized net losses arising during the period	**(126,679)**	(58,766)
Net gains reclassified to net income	**(39,704)**	(63,099)
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit plan liabilities	**20,186**	8,551
Other comprehensive loss	**(146,197)**	(113,314)
Comprehensive income	**$ 128,362**	$ 37,466
Attributable to:		
ATB Financial	**$ 126,990**	$ 37,466
Non-controlling interests	**1,372**	-

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)*	2018	2017
Retained earnings		
Balance at beginning of the year	**$ 3,179,285**	$ 3,028,505
Net income	**274,559**	150,780
Balance at end of the year	**3,453,844**	3,179,285
Non-controlling interest		
Balance at beginning of the year	**-**	-
Balance at the date of acquisition	**2,136**	-
Net income attributable to non-controlling interests in subsidiaries	**1,372**	-
Balance at end of the year	**3,508**	-
Accumulated other comprehensive loss		
Derivative financial instruments designated as cash flow hedges		
Balance at beginning of the year	**40,021**	161,886
Other comprehensive loss	**(166,383)**	(121,865)
Balance at end of the year	**(126,362)**	40,021
Defined benefit plan liabilities		
Balance at beginning of the year	**(72,020)**	(80,571)
Other comprehensive income	**20,186**	8,551
Balance at end of the year	**(51,834)**	(72,020)
Accumulated other comprehensive loss	**(178,196)**	(31,999)
Equity	**$ 3,279,156**	$ 3,147,286

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

Consolidated Statement of Cash Flows

For the year ended March 31 *($ in thousands)*	2018	2017
Cash flows from operating activities:		
Net income	**$ 274,559**	$ 150,780
Adjustments for non-cash and other items:		
Provision for loan losses	**105,006**	234,989
Depreciation and amortization	**130,055**	121,062
Net gains on financial instruments at fair value through net income	**(7,357)**	(11,436)
Adjustments for net changes in operating assets and liabilities:		
Loans	**(3,324,362)**	(630,195)
Deposits	**(1,243,158)**	3,064,070
Derivative financial instruments	**41,822**	(41,049)
Prepayments and other receivables	**(14,570)**	(29,124)
Due to clients, brokers, and dealers	**(1,410)**	17,440
Deposit guarantee fee payable	**1,751**	(25)
Accounts payable and accrued liabilities	**(30,818)**	(244,141)
Liability for payment in lieu of tax and income taxes	**36,398**	12,740
Net interest receivable and payable	**(4,119)**	13,678
Change in accrued pension-benefit liability	**(26,241)**	(3,548)
Others, net	**(139,931)**	(22,754)
Net cash (used in) provided by operating activities	**(4,202,375)**	2,632,487
Cash flows from investing activities:		
Change in securities measured at fair value through net income	**217,404**	(1,258,498)
Change in securities purchased under reverse repurchase agreements	**400,565**	(450,661)
Change in interest-bearing deposits with financial institutions	**(463,300)**	56,768
Purchases and disposals of property and equipment, software, and other intangibles	**(118,578)**	(109,124)
Net cash provided by (used in) investing activities	**36,091**	(1,761,515)
Cash flows from financing activities:		
Issuance of wholesale borrowings	**9,223,827**	3,113,144
Repayment of wholesale borrowings	**(7,459,695)**	(5,268,552)
Issuance of collateralized borrowings	**1,595,794**	1,784,649
Repayment of collateralized borrowings	**-**	(469,757)
Change in securities sold under repurchase agreements	**790,827**	-
Issuance of subordinated debentures	**45,038**	32,298
Repayment of subordinated debentures	**(58,280)**	(59,298)
Net cash provided by (used in) financing activities	**4,137,511**	(867,516)
Net (decrease) increase in cash	**(28,773)**	3,456
Cash at beginning of the year	**314,300**	310,844
Cash at end of the year	**285,527**	314,300
Net cash (used in) provided by operating activities includes:		
Interest paid	**$ (589,814)**	$ (522,347)
Interest received	**$ 1,708,076**	$ 1,620,340

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2018

Note 1 Nature of Operations

ATB Financial (ATB) is an Alberta-based financial services provider engaged in retail and commercial banking, credit cards, digital banking, wealth management, and investment management 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 a board of directors appointed by the Lieutenant-Governor in Council. 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 provincial government designed to be in lieu of such a charge. (Refer to note 2q and 20.)

Note 2 Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions. These consolidated financial statements were approved by the board of directors on May 24, 2018.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through net income, 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, 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 commences until the date control ceases. The financial statements of the subsidiaries have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

These consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries, created for offering investor services, were established by Order in Council and incorporated under the *Business Corporations Act* (Alberta):

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

The following wholly owned subsidiaries, created for offering advisory and institutional financial services, were incorporated under the *Business Corporations Act* (Alberta):

- AltaCorp Capital Inc., incorporated May 17, 2010
- AltaCorp Capital (USA) Inc., incorporated June 21, 2010

Significant Accounting Judgments, Estimates, and Assumptions

In the process of 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; 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, 2018, provide additional information in the following notes:

- Note 2c: Financial instruments – fair-value
- Note 2d: Impairment of financial assets – for establishing allowance for loan losses
- Note 2q: Income taxes
- Note 7: Securities – for establishing fair value of investments made to a broad range of private Alberta companies
- Note 11: Property and equipment – for establishing depreciation expense for premises and equipment
- Note 12: Software and other intangibles – for establishing the amortization expense for software
- Note 19: Employee benefits – for establishing the assumptions used

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the exchange rate 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 – Recognition and Measurement

Financial assets and liabilities are classified by their characteristics and management's intention upon their acquisition. ATB classifies financial assets as either financial assets at fair value through net income, loans and receivables, or held-to-maturity or available-for-sale financial assets. Financial liabilities are classified as either financial liabilities at fair value through net income or financial liabilities at amortized cost.

All financial assets and liabilities are initially recognized on the trade date, when ATB becomes a party to the contractual provisions of the instrument.

ATB derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all 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.

Financial Assets

Financial Assets at Fair Value Through Net Income

This category comprises two subcategories: financial assets held for trading and financial assets designated by ATB at fair value through net income upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are classified as financial assets held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and reported as net gains on derivative financial instruments.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the Consolidated Statement of Income. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and reported as net gains on financial instruments at fair value through net income. Interest income and expense on financial assets held for trading are included in net interest income. Interest accruals are recorded separately from fair-value measurements. Changes in fair value are determined on a clean-price basis.

ATB designates certain financial assets upon initial recognition as financial assets at fair value through net income (fair-value option). This designation cannot subsequently be changed. The fair-value option is only applied when one of the following conditions is met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The financial assets are part of a portfolio of financial instruments that is used for managing risk and is reported to senior management on a fair-value basis.
- The financial asset contains one or more embedded derivatives that must be separated.

The fair-value option is applied to certain interest-bearing deposits and securities that are part of a portfolio managed on a fair-value basis. The fair-value option is also applied to structured instruments that include embedded derivatives. Fair-value changes relating to financial assets designated at fair value through net income are recognized in net gains on financial instruments at fair value through net income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those:

- That ATB intends to sell immediately or in the short term, classifies as held for trading, or upon initial recognition designates as fair value through net income or available for sale
- For which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivables are initially recognized at fair value—which is the cash consideration to originate or purchase the loan including any transaction costs—and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the Consolidated Statement of Financial Position as loans or securities purchased under reverse repurchase agreements. Interest on items classified as loans and receivables is included in the Consolidated Statement of Income and reported as part of net interest income. Loan impairments are reported as a deduction from the carrying value of the loan and recognized in the Consolidated Statement of Income as provision for loan losses.

Available-for-Sale Financial Assets

Available-for-sale financial assets are financial assets intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through net income.

Available-for-sale financial assets are initially recognized at fair value—which is the cash consideration including any transaction costs—and measured subsequently at fair value with gains and losses being recognized in other comprehensive income (OCI), except for impairment losses and foreign-exchange gains and losses, until the financial asset is derecognized.

If an available-for-sale financial asset is considered impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the Consolidated Statement of Income. However, interest is calculated using the effective interest method, and foreign-currency gains and losses on monetary assets classified as available for sale are recognized in the Consolidated Statement of Income.

Available-for-sale financial assets are reported in the Consolidated Statement of Financial Position as securities available for sale.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ATB's management intends and is able to hold to maturity.

These are initially recognized at fair value, including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Interest on held-to-maturity investments is included in the Consolidated Statement of Income as net interest income. In the case of an impairment, the impairment loss would be reported as a deduction from the carrying value of the investment and recognized in the Consolidated Statement of Income. ATB did not hold any instruments in this category at the reporting date.

Financial Liabilities

Financial Liabilities at Fair Value Through Net Income

This category comprises two subcategories: financial liabilities held for trading and financial liabilities designated by ATB as fair value through net income upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. These instruments are included in derivative financial instruments in the Consolidated Statement of Financial Position. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and reported as net gains on derivative financial instruments.

Financial liabilities classified as fair value through net income have been designated as such by ATB upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as fair value through net income upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that is managed and whose performance is evaluated on a fair-value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and would otherwise be separated from their host contract.

Gains and losses arising from changes in the fair value of financial liabilities classified as fair value through net income are included in the Consolidated Statement of Income and reported as net gains on financial instruments at fair value through net income. Interest expenses on financial liabilities held for trading are included in net interest income. As at March 31, 2018, ATB held certain wholesale borrowings classified as fair value through net income.

Other Liabilities Measured at Amortized Cost

Financial liabilities not classified as fair value through net income fall into this category and are measured at amortized cost. Interest expense is recognized using the effective interest method in net interest expense. Financial liabilities measured at amortized cost include deposits, certain wholesale borrowings, subordinated debentures, collateralized borrowings, and other liabilities.

c. Financial Instruments – Fair Value

Financial assets and liabilities can be measured at fair value or amortized cost, depending on their classification.

Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell 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, and when such prices are available, ATB uses them to measure financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's-length basis. The fair value of a financial asset traded in an active market generally reflects the bid price, and that of a financial liability traded in an active market generally reflects the ask price. If the market for a financial instrument is not active, ATB establishes fair value using a valuation technique that primarily makes use of observable market inputs. Such valuation techniques include the use of available information concerning recent market transactions, reference to the current fair value of a comparable financial instrument, discounted cash flow analysis, option pricing models, and all other valuation techniques 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, taking into account the valuation policies in effect at ATB, the economic environment, the specific characteristics of the financial asset or liability, and other relevant factors.

The fair values are estimated at the balance sheet date using the valuation methods and assumptions described below.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short term in nature is considered to be equal to their carrying value. These items include cash, securities purchased under reverse repurchase agreements, other assets, and other liabilities.

Securities and Interest-Bearing Deposits With Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

Derivative Instruments

Fair value of over-the-counter and embedded derivative financial instruments is estimated using pricing models that take into account current market and contractual prices of the underlying instruments, and time value and yield curve or volatility factors underlying the positions.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates reprice to market when market rates change. For fixed-rate loans, fair value is estimated by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is estimated by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and measurement uncertainty, the fair-value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

Wholesale Borrowings, Collateralized Borrowings, and Subordinated Debentures

The fair values of wholesale borrowings, collateralized borrowings, and subordinated debentures are estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

d. Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

ATB assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events (a loss event) that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that ATB uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as a default or significant delinquency in interest or principal payments
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- An assessed probability that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for that financial asset because of financial difficulties
- Observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - Adverse changes in the payment status of borrowers in the portfolio
    - National or local economic conditions that correlate with defaults on the assets in the portfolio

For purposes of impairment assessments, two groups of assets are formed: individually significant and individually insignificant. For individually significant assets, ATB determines whether objective evidence of impairment exists, and if the asset is found to be impaired, an individual assessment of impairment loss is made. For all other assets, a collective assessment of impairment loss is made, which includes individually significant assets that are not impaired as well as all individually insignificant assets, whether impaired or not. As soon as objective evidence of impairment loss becomes available for individually significant assets, those assets are removed from the collective assessment group.

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account, and the amount of the loss is included in the Consolidated Statement of Income as a provision for loan losses. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For a collective evaluation of impairment (including individually significant assets for which no objective evidence of impairment exists, and individually insignificant assets), financial assets are grouped by similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by indicating the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated by the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted by current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the original effective rate of interest used to discount the future cash flows for measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Consolidated Statement of Income.

When a loan has been subjected to an individually assessed provision and there is no likelihood of recovery, the loan is written off against the related allowance. Subsequent recoveries of written-off amounts are recorded in the Consolidated Statement of Income as a reduction to the provision.

Assets Classified as Available for Sale

ATB assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If such evidence exists for available-for-sale financial assets, the cumulative loss—the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the Consolidated Statement of Income. If the fair value of a debt instrument classified as available for sale subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Consolidated Statement of Income.

e. Securities Purchased Under Reverse Repurchase Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by ATB with a simultaneous agreement to sell them back at a specified price on a future date. The difference between the cost of the purchase and the predetermined proceeds to be received based on the repurchase agreement is recorded as securities interest income. Securities purchased under reverse repurchase agreements are fully collateralized, 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.

f. Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, a currency exchange rate, the price of an equity or debt security, or an equity or commodity index.

ATB enters into various over-the-counter and exchange-traded derivatives in the normal course of business, including interest rate swaps, futures, and foreign-exchange and commodity forwards and futures. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers.

ATB’s corporate derivative portfolio is not intended for speculative income generation but for asset/liability management purposes—that is, to manage ATB’s interest-rate, foreign-exchange, and equity- and commodity-related exposures arising from its portfolio of investments, 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 customers. 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.

All derivative financial instruments, including embedded derivatives, are classified as held for trading 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 in net income, unless the derivative qualifies for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in 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 an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair-value hedge.

ATB discontinues hedge accounting when one of the following 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.
- 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 the Consolidated Statement of Income.

Cash Flow Hedge

ATB's derivative instruments in cash flow hedges are intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to the variability of cash flows from certain loans and deposits. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in OCI and the ineffective portion in net income. Any such amounts recognized in OCI are reclassified from OCI into net interest income in the same period that the underlying hedged item affects net interest income.

Fair-Value Hedge

Changes in fair value of derivatives that qualify and are designated as fair-value hedges are recorded in the Consolidated Statement of Income, together with changes in the fair value of the hedged asset or liability attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair-value hedges of interest rate risk, the fair-value adjustment to the hedged item is amortized to the Consolidated Statement of Income over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortized fair-value adjustment is recognized immediately in the Consolidated Statement of Income. No fair-value hedges exist at the reporting date.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract with features similar to a derivative. Embedded derivatives with economic characteristics and risks considered not closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument with the same terms would qualify as a derivative and if the host contract is not already measured at fair value. ATB has identified embedded derivatives within certain extendible loan contracts and within all equity-linked and commodity-linked deposit contracts. Any such embedded derivatives are not considered closely related to the host contract and have been accounted for separately as derivative assets or liabilities.

g. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are depreciated on a straight-line basis over their estimated useful lives, 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 as well as 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 plus the first renewal option, if applicable. No depreciation is calculated on property and equipment under construction or development until the assets are available for use. The estimated useful life for each asset class is as follows:

- Buildings – Up to 20 years
- Buildings under finance lease – Up to 15 years, with certain leases having a useful life of 20 years
- Computer equipment – Up to 4 years
- Other equipment – 5 years
- Leasehold improvements – Lease term plus first renewal period, if applicable

Depreciation rates, calculation methods, and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to account for any change in circumstances. Gains and losses on the disposal of property and equipment are recorded in the Consolidated Statement of Income in the year of disposal.

h. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives consistent with the expected economic benefits obtained from the asset. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software and other intangibles is 3 to 5 years, with certain software having a useful life of 15 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATB and that the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with an internally developed software project.

i. Impairment of Property and Equipment and Software and Other Intangibles

The carrying amount of non-financial assets, which include property and equipment and software and other intangibles, are reviewed for impairment whenever events, changes in circumstances, or technical or commercial obsolescence indicate that the carrying amount may not be recoverable. Software under development is tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level where there are separately identifiable cash inflows (cash-generating units).

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 recognized in the Consolidated Statement of Income.

Impairment losses may be reversed if the circumstances leading to impairment are no longer present. An impairment loss is reversed 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 recognized in the Consolidated Statement of Income.

j. Finance and Operating Leases

Leases of assets where ATB has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets held under finance leases are initially recognized in the Consolidated Statement of Financial Position at an amount equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities in the Consolidated Statement of Financial Position. The discount rate used in calculating the present value of the minimum lease payments is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property. Lease incentives or inducements are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

k. Employee Benefits

ATB provides benefits to current and past employees through a combination of defined benefit (DB) and defined contribution (DC) plans.

ATB's current non-management employees participate in the Public Service Pension Plan (PSPP) with other Alberta public-sector employees. The PSPP is a DB pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or DC provisions. ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees. Where employees have annual contributions over the allowed maximum under the *Income Tax Act*, ATB provides the employees with a notional supplemental plan (NSP), where 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 actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The PSPP and the DB portion of the ATB Plan, SRP, and OPEB obligations provide employee benefits based on members' years of service and highest average salary. The liability recognized in the Consolidated Statement of Financial Position in respect of 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 income unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Accounting for Defined Contribution Plans

Contributions are expensed as they become due and are recorded in salaries and employee benefits in the Consolidated Statement of Income.

Plan Valuations, Asset Allocation, and Funding

ATB annually measures its accrued benefit obligations and the fair values of plan assets for accounting purposes on March 31 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, 2016. The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. (Refer to note 19.)

l. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ATB, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

m. Financial Guarantees

Liabilities under financial guarantee contracts are 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 obligations.

n. Securitization

Securitization of residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the Canada Mortgage Bonds program, or to third-party investors, and securitization of credit card receivables provide ATB with additional sources of liquidity. As ATB retains substantially all the risks and rewards related to the assets, the credit card receivables and mortgage loans are not derecognized and remain in the Consolidated Statement of Financial Position, and are carried at amortized cost. The risks associated with credit card receivables and residential mortgage loans are credit and interest rate risks, with prepayment risks also impacting residential mortgage loans. ATB recognizes a liability for cash proceeds received from securitization. This liability is presented under collateralized borrowings in the Consolidated Statement of Financial Position.

o. Segmented Information

An area of expertise is a distinguishable component of ATB engaged in providing products or services that is subject to risks and returns that are different from those of other areas. The corporate management committee regularly reviews operating activity by area. All transactions between areas are conducted on an arm's-length basis, with intra-segment revenue and costs being eliminated in strategic service units. Income and expenses directly associated with each area are included in determining that area's performance.

p. Revenue Recognition

Interest Income and Expenses

Interest income and expenses for all interest-bearing financial instruments are recognized in the Consolidated Statement of Income using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ATB estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future loan losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and Commission Income and Expenses

Fees and commission income and expenses integral to the effective interest rate on a financial asset or liability are included when calculating the effective interest rate. Other fees and commission income, including fees associated with account servicing, investment management, credit cards, commitments, placements, underwriting, corporate finance, agencies, brokerages , advisory services, and research are recognized as the related services are performed. Where ATB is the lead in a syndication, loan syndication fees are recognized in fees and commission income, unless the yield on any loans retained is less than that of the other lenders involved in the financing, in which case an appropriate portion of the syndication fee is recorded as interest income over the term of the loan. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

q. Income Taxes

Income tax expense consists of current and deferred taxes related to the operations of AltaCorp Capital Inc. (AltaCorp), ATB's subsidiary, and is recognized in the consolidated statements of income as part of ATB's payment in lieu of tax and comprehensive income.

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.

Deferred income tax, which can result from the carryforward of unused tax losses and credits, is 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 and are measured using rates that are expected to be applied when they reverse.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent 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.

r. Share Purchase Financing

Loans granted to purchase shares in AltaCorp are accounted for as an asset, provided the following criteria are met:

- The loan contains repayment terms and conditions similar to arm's-length market terms;
- The borrower has the ability to repay the loan;
- The borrower is subject to recourse in the event of defaulting on the loan; and
- Management intends to ensure repayment of the loan regardless of AltaCorp's share price.

If a share purchase loan does not meet the above criteria, it is accounted for as a reduction in the share capital of AltaCorp.

s. 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 with any transaction costs taken directly to the Consolidated Statement of Income. Goodwill is recorded 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, with any remaining difference recognized immediately in the Consolidated Statement of Income. Any subsequent fair value changes for contingent liabilities are recognized in the Consolidated Statement of Income.

The non-controlling interest 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 on a transaction-by-transaction basis.

Note 3 Summary of Accounting Policy Changes

Changes in Accounting Policies and Disclosures

IAS 7 *Statement of Cash Flows*

On April 1, 2017, ATB adopted the amendments to IAS 7 *Statement of Cash Flows* that improve the information presented about an entity's financing activities by providing additional disclosure about the change in liabilities arising from financing activities. ATB has separately disclosed issuances and repayments of its financing activities in the Consolidated Statement of Cash Flows.

Future Accounting Policy Changes

IFRS 9 *Financial Instruments*

In July 2014 the IASB issued the final version of IFRS 9 *Financial Instruments*, that will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The new requirements will be applied through an adjustment to opening retained earnings on our Consolidated Statement of Financial Position on April 1, 2018, the date of initial application, with no restatement to prior-period comparative results. As at March 31, 2018, the current estimates from adopting IFRS 9 is expected to result in an increase of approximately $47 million to retained earnings as at April 1, 2018, and is attributable to the expected credit losses under the new impairment requirements. There is no adjustment to opening retained earnings as a result of adopting the classification and measurement requirements.

Classification and Measurement

IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories that determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected. Applying the contractual cash flow characteristics and business model tests as at April 1, 2018, is expected to result in certain securities previously classified as fair value through net income to be classified as FVOCI based on the assets' business model.

Impairment

Scope

IFRS 9 introduces a new impairment model based on expected credit losses (ECL). The model will apply to all financial assets, which includes financial assets classified at amortized cost, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees, with the most significant impact to loans. Financial assets classified or designated at fair value through profit and loss will be excluded from the new impairment model. Under the new model, ECL will be recognized in profit or loss before a loss event has occurred, which can result in earlier recognition of credit losses compared to the current model, where impairment losses are recognized only where there is objective evidence of impairment.

Expected Credit Loss Impairment Model

The expected credit losses will be measured at each reporting date based on a three-stage impairment model, and considers whether there has been a significant increase in credit risk since initial recognition of the financial asset.

- If there has not been a significant increase in credit risk at the reporting date, the ECL will be measured and recognized at 12-month expected credit losses and remain at Stage 1.
- A financial asset will move to Stage 2 if a significant increase in credit risk has occurred since initial recognition and a loss allowance equal to the full lifetime expected credit losses is recognized.
- A financial asset will move to Stage 3 when it is credit impaired. In Stage 3, interest income is recognized on the carrying amount of the asset, net of the impairment allowance.

The IFRS 9 Stage 3 population is expected to remain largely consistent with the impaired loans population under IAS 39.

Measurement of Expected Credit Losses

ECLs will be measured as an unbiased, probability-weighted calculation, based on the asset's probability of default (PD), loss given default (LGD), and exposure at default (EAD), discounted to the reporting date. The calculation includes reasonable and supportable information about past events, current conditions, and relevant forward-looking macroeconomic information. In the process, three scenarios, baseline, optimistic and pessimistic, are probability-weighted based on their relative likelihood and are applied in the model calculation. The scenarios are updated quarterly and are subject to review and challenge by the newly established governance committee comprised of members from the economics, risk management, treasury, finance, internal audit, capital, foreign exchange, and energy areas.

Significant Increase in Credit Risk

A significant increase in credit risk will be assessed for both retail and non-retail exposures based on established thresholds for both a percentage and absolute change in credit risk since initial recognition. Retail exposures will be based on the beacon score and 12-month PD since initial recognition, and non-retail exposures will be assessed based on the internal risk rating (borrower risk rating or BRR) since initial recognition. The criteria for assessing significant increases in credit risk for both exposures are defined at the portfolio level and vary based on the exposure at origination. A financial asset can move between the stages, both forwards and backwards, depending on the deterioration or improvement in credit risk. The movement will be recorded in profit or loss and may increase the volatility of the loan loss provision when compared to IAS 39.

Hedge Accounting

IFRS 9 also introduces a new model that aims to simplify hedge accounting, expanding on the scope of eligible hedged items and risks eligible for hedge accounting, and more closely aligns the accounting for hedge relationships with ATB's risk management activities. The model also revises the effectiveness testing to consider the economic relationship and does not allow for voluntary hedge de-designation. In addition, amendments to IFRS 7 *Financial Instruments: Disclosures* introduce new hedge accounting disclosure requirements for the annual period beginning April 1, 2018.

IFRS 9 includes an election to remain with the current IAS 39 hedge accounting requirements until IFRS 9 is amended to reflect the macro hedge accounting requirements determined through a separate project. ATB has elected to continue applying the hedge accounting requirements under IAS 39.

Transition

IFRS 9 is effective for ATB's fiscal year beginning on April 1, 2018. ATB established the conditions of and approach to the IFRS 9 compliance project with a comprehensive program that included the finance, risk management, and technology areas. As part of the overall project governance structure, we formed the IFRS 9 steering committee, jointly led by finance and risk management, with members from the technology and project management areas, that monitored the project progress and reviewed and approved approaches for significant issues and decisions. IFRS 9 overview sessions and project updates—including timelines, status of analysis, and documentation and system implementation—were provided to both the audit committee and senior management throughout the project.

The IFRS 9 project implementation plan included the following phases:

- Initiation and planning
- Identification and detailed assessment of key decision points
- Review and assessment of business requirements
- Development of IFRS 9 models
- Design and implementation of the IFRS 9 impairment solution

Significant models for impairment have been reviewed and validated, with the process controls continuing to be identified and developed. Training has been provided, which included an overview of the IFRS 9 project and impairment solution. IFRS 9 transition disclosures have also been completed.

The governance framework was expanded to meet IFRS 9 requirements and included establishing the Alberta economic outlook committee that includes members from the economics, risk management, treasury, finance, internal audit, capital, foreign exchange, and energy areas. The committee's primary responsibilities includes reviewing, challenging and approving the key areas of judgment and assumptions that are used in forecasting multiple macroeconomic scenarios and the related probabilities for determining impairment under IFRS 9.

IFRS 15 *Revenue From Contracts With Customers*

In September 2015, the IASB published *Effective Date of IFRS 15,* which deferred the effective date of IFRS 15 *Revenue From Contracts With Customers*, replacing all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

The amendment must be applied retrospectively for annual periods beginning on or after January 1, 2018, with no expected impact to ATB.

IFRS 16 *Leases*

In January 2016, the IASB published a new standard, IFRS 16 *Leases,* bringing leases for lessees under a single model and eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue From Contracts With Customers* has also been applied.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration* that clarifies IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The interpretation states that the exchange rate on the date the transaction occurs is used when initially recognizing the related asset, expense, or income.

ATB is currently assessing the impact of adopting the interpretation, which can be applied either retrospectively in accordance with IAS 8 *Accounting Policies and Accounting Estimates*, or prospectively to all applicable transactions, and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IAS 23 Borrowing Costs

In December 2017, the IASB issued the *Annual Improvements to IFRS Standards 2015–2017 Cycle* that amends IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, and IAS 23 *Borrowing Costs*. The amendment to IAS 23 *Borrowing Costs* is the only amendment that is applicable to ATB. The amendment clarifies that once an asset is ready for use or sale, any outstanding borrowing costs to obtain the asset are included when calculating the capitalization borrowing rate.

ATB is currently assessing the impact of adopting the interpretation, which will be effective for annual periods beginning on or after January 1, 2019.

IAS 28 *Investments in Associates and Joint Ventures*

In December 2016, the IASB issued the *Annual Improvements 2014–2016 Cycle* that amends IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interests in Other Entities,* and IAS *28 Investments in Associates and Joint Ventures.* The amendment to IAS 28 *Investments in Associates and Joint Ventures* is the only standard applicable to ATB. The amendment clarifies and permits the option at initial recognition to measure an associate at fair value through profit or loss on an investment-by-investment basis.

ATB is currently assessing the impact of adopting the amendment, which must be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IAS 19 Employee Benefits

In February 2018, the IASB issued *Plan Amendment, Curtailment or Settlement* for IAS 19 *Employee Benefits*. The amendment clarifies that if a plan amendment, curtailment, or settlement occurs, the calculation of the current service cost and net interest for the period following the remeasurement is based on assumptions used when the plan's net defined liability or asset is remeasured.

ATB is currently assessing the impact of adopting the amendment, which is effective for any plan amendments, curtailments, or settlements occurring in annual periods beginning on or after January 1 2019. Early adoption is permitted, but must be disclosed

Note 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, 2018 *($ in thousands)*	Carrying value: Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for -sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value	
Financial assets								
Cash	$ -	$ -	$ -	$ 285,527	$ -	$ -	$ 285,527	(1)
Interest-bearing deposits with financial institutions	-	1,110,848	-	-	-	-	1,110,848	(1)
Securities	-	4,760,130	-	-	-	-	4,760,130	(1)
Securities purchased under reverse repurchase agreements	-	-	-	50,096	-	-	50,096	(1)
Loans								
Business	-	-	-	21,439,814	-	-	21,439,814	
Residential mortgages	-	-	-	15,750,430	-	-	15,750,430	
Personal	-	-	-	6,711,755	-	-	6,711,755	
Credit card	-	-	-	718,065	-	-	718,065	
Allowance for credit losses	-	-	-	(509,024)	-	-	(509,024)	
	-	-	-	44,111,040	-	-	44,111,040	(2)
Other								
Derivative financial instruments	454,640	-	-	-	-	122,072	576,712	
Other assets	-	-	-	178,405	-	-	178,405	
	454,640	-	-	178,405	-	122,072	755,117	(1)
Financial liabilities								
Deposits								
Personal	$ -	$ -	$ -	$ -	$ 13,585,867	$ -	$ 13,585,867	
Business and other	-	-	-	-	19,097,906	-	19,097,906	
	-	-	-	-	32,683,773	-	32,683,773	(3)
Other								
Securities sold under repurchase agreements	-	-	-	-	790,827	-	790,827	(1)
Wholesale borrowings	-	514,980	-	-	4,141,489	-	4,656,469	(4)
Collateralized borrowings	-	-	-	-	8,408,453	-	8,408,453	(5)
Derivative financial instruments	429,232	-	-	-	-	243,930	673,162	(1)
Other liabilities	-	-	-	-	986,370	-	986,370	(1)
	429,232	514,980	-	-	14,327,139	243,930	15,515,281	
Subordinated debentures	-	-	-	-	331,199	-	331,199	(6)

[1] Fair value estimated to equal carrying value.

[2] Fair value of loans estimated at $45,191,597.

[3] Fair value of deposits estimated at $32,305,240.

[4] Fair value of wholesale borrowings estimated at $4,640,013.

[5] Fair value of collateralized borrowings estimated at $8,379,961.

[6] Fair value of subordinated debentures estimated at $334,565.

Financial Information

As at March 31, 2017 ($ in thousands)	Carrying value Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for -sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value	
Financial assets								
Cash	$ -	$ -	$ -	$ 314,300	$ -	$ -	$ 314,300	(1)
Interest-bearing deposits with financial institutions	-	647,549	-	-	-	-	647,549	(1)
Securities	-	4,984,678	-	-	-	-	4,984,678	(1)
Securities purchased under reverse repurchase agreements	-	-	-	450,661	-	-	450,661	(1)
Loans								
Business	-	-	-	19,046,406	-	-	19,046,406	
Residential mortgages	-	-	-	14,947,751	-	-	14,947,751	
Personal	-	-	-	6,622,936	-	-	6,622,936	
Credit card	-	-	-	703,817	-	-	703,817	
Allowance for credit losses	-	-	-	(509,688)	-	-	(509,688)	
	-	-	-	40,811,222	-	-	40,811,222	(2)
Other								
Derivative financial instruments	294,609	-	-	-	-	156,238	450,847	
Other assets	-	-	-	70,789	-	-	70,789	
	294,609	-	-	70,789	-	156,238	521,636	(1)
Financial liabilities								
Deposits								
Personal	$ -	$ -	$ -	$ -	$ 13,316,717	$ -	$ 13,316,717	
Business and other	-	-	-	-	20,611,043	-	20,611,043	
	-	-	-	-	33,927,760	-	33,927,760	(3)
Other								
Securities sold under repurchase agreements	-	-	-	-	-	-	-	(1)
Wholesale borrowings	-	-	-	-	2,892,336	-	2,892,336	(4)
Collateralized borrowings	-	-	-	-	6,812,660	-	6,812,660	(5)
Derivative financial instruments	245,806	-	-	-	-	93,286	339,092	(1)
Other liabilities	-	-	-	-	968,446	-	968,446	(1)
	245,806	-	-	-	10,673,442	93,286	11,012,534	
Subordinated debentures	-	-	-	-	344,441	-	344,441	(6)

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated at $42,532,355.
[3] Fair value of deposits estimated at $33,809,451.
[4] Fair value of wholesale borrowings estimated at $2,939,481.
[5] Fair value of collateralized borrowings estimated at $6,816,598.
[6] Fair value of subordinated debentures estimated at $357,211.

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
- 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 year ended March 31, 2018 and 2017, 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 to a broad range of private Alberta companies. 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, 2018 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 1,110,848	$ -	$ 1,110,848
Securities				
Designated at fair value through net income	4,737,190	-	22,940	4,760,130
Other assets				
Derivative financial instruments	-	576,712	-	576,712
Total financial assets	$ 4,737,190	$ 1,687,560	$ 22,940	$ 6,447,690
Financial liabilities				
Wholesale borrowings	-	514,980	-	514,980
Other liabilities				
Derivative financial instruments	-	673,162	-	673,162
Total financial liabilities	$ -	$ 1,188,142	$ -	$ 1,188,142

As at March 31, 2017 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 647,549	$ -	$ 647,549
Securities				
Designated at fair value through net income	4,978,406	-	6,272	4,984,678
Other assets				
Derivative financial instruments	-	450,847	-	450,847
Total financial assets	$ 4,978,406	$ 1,098,396	$ 6,272	$ 6,083,074
Financial liabilities				
Wholesale borrowings				
Other liabilities	-	-	-	-
Derivative financial instruments	212	338,880	-	339,092
Total financial liabilities	$ 212	$ 338,880	$ -	$ 339,092

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 7 for the other securities designated at fair value through net income.

The following tables present the changes in fair value of level 3 financial instruments:

($ in thousands)	**Securities available for sale**	**Securities designated at fair value through net income**
Fair value as at March 31, 2017	**$ -**	**$ 6,272**
Total realized and unrealized gains included in net income	**-**	**4,500**
Total realized and unrealized gains included in other comprehensive income	**-**	**-**
Purchases and issuances	**-**	**12,168**
Sales and settlements	**-**	**-**
Fair value as at March 31, 2018	**$ -**	**$ 22,940**
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2018	**$ -**	**$ 4,500**

($ in thousands)	Securities available for sale	Securities designated at fair value through net income
Fair value as at March 31, 2016	$ 182	$ 441,089
Total realized and unrealized losses included in net income	(171)	(2,051)
Total realized and unrealized gains included in other comprehensive income	-	-
Purchases and issuances	-	6,272
Sales and settlements	(11)	(439,038)
Fair value as at March 31, 2017	$ -	$ 6,272
Change in unrealized losses included in income with respect to financial instruments held as at March 31, 2017	$ (155)	$ (1,893)

The Consolidated Statement of Income line item for net gains on financial instruments at fair value through net income includes realized and unrealized fair-value movements on all financial instruments designated at fair value and realized gains on securities available for sale.

Offsetting Financial Assets and Financial Liabilities

A financial asset or liability 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 in the normal course of business or in the event of default, insolvency, or bankruptcy.

Related amounts not offset in the Consolidated Statement of Financial Position include transactions where the following conditions apply:

- Counterparty has an offsetting exposure with ATB and a master netting or similar arrangement in place.
- Financial collateral has been received or pledged against the transactions described below.

Securities purchased under reverse repurchase agreements subject to master netting arrangements or similar arrangements and derivative assets and liabilities subject to the master netting agreements of the International Swaps and Derivatives Association (ISDA) do not meet the criteria for offsetting in the Consolidated Statement of Financial Position, as the ability to offset is only enforceable 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:

As at March 31, 2018 ($ in thousands)	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[(1)]	Related amounts not offset in the Consolidated Statement of Financial Position: Financial collateral received/ pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 50,096	$ -	$ 50,096	$ -	$ -	$ 50,096
Derivative financial instruments	576,712	-	576,712	387,632	13,973	175,107
Amounts receivable from clients and financial institutions	23,781	-	23,781	14,490	-	9,291
	$ 650,589	$ -	$ 650,589	$ 402,122	$ 13,973	$ 234,494
Financial liabilities						
Securities sold under reverse repurchase agreements	$ 790,827	$ -	$ 790,827	$ -	$ -	$ 790,827
Derivative financial instruments	673,162	-	673,162	387,632	175,892	109,638
Amounts payable to clients and financial institutions	22,625	-	22,625	14,490	-	8,135
	$ 1,486,614	$ -	$ 1,486,614	$ 402,122	$ 175,892	$ 908,600

As at March 31, 2017 ($ in thousands)	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[(1)]	Related amounts not offset in the Consolidated Statement of Financial Position: Financial collateral received/ pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 450,661	$ -	$ 450,661	$ -	$ -	$ 450,661
Derivative financial instruments	450,847	-	450,847	245,607	126,776	78,464
Amounts receivable from clients and financial institutions	25,779	-	25,779	13,332	-	12,447
	$ 927,287	$ -	$ 927,287	$ 258,939	$ 126,776	$ 541,572
Financial liabilities						
Securities sold under reverse repurchase agreements	$ -	$ -	$ -	$ -	$ -	$ -
Derivative financial instruments	339,092	-	339,092	245,607	-	93,485
Amounts payable to clients and financial institutions	19,016	-	19,016	13,332	-	5,684
	$ 358,108	$ -	$ 358,108	$ 258,939	$ -	$ 99,169

[1] 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.

Note 5 Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in the Risk Management section of the management's discussion and analysis (MD&A) relating to credit, market, and liquidity risks. These risks are an integral part of the 2018 consolidated financial statements.

Note 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 Large Value Transfer System. Interest-bearing deposits with financial institutions have been classified as designated at fair value through net income, 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 loans and receivables for financial instruments purposes as disclosed in note 4.

As at March 31, 2018, the carrying value of interest-bearing deposits with financial institutions consists of $1,110.8 million (2017: $647.5 million) classified as designated at fair value through net income.

ATB has restricted cash that represents deposits held in trust in connection with ATB's securitization activities. These deposits include cash accounts that hold principal and interest payments collected from mortgages securitized through the mortgage-backed security program. The deposits are awaiting payment to their respective investors and are held in interest reinvestment accounts in connection with ATB's participation in the Canada Mortgage Bonds program. As at March 31, 2018, the amount of restricted cash is $124.1 million (2017: $103.3 million).

Note 7 Securities

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

As at March 31, 2018 *($ in thousands)*	**Within 1 year**	**1-5 years**	**Over 5 years**	**Total carrying value**
Securities measured at fair value through net income				
Issued or guaranteed by the federal or provincial government	**$ 2,181,625**	**$ 2,554,603**	**$ -**	**$ 4,736,228**
Other securities	**962**	**22,940**	**-**	**23,902**
Total securities measured at fair value through net income	**$ 2,182,587**	**$ 2,577,543**	**$ -**	**$ 4,760,130**

As at March 31, 2017 *($ in thousands)*	Within 1 year	1-5 years	Over 5 years	Total carrying value
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial government	$ 2,531,366	$ 2,447,040	$ -	$ 4,978,406
Other securities	-	6,272	-	6,272
Total securities measured at fair value through net income	$ 2,531,366	$ 2,453,312	$ -	$ 4,984,678

Other Securities

These securities in the current year relate to investments made by AltaCorp and investments made to a broad range of private Alberta companies. There is no observable market price for the investments made to 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 the exit multiple of 6.0 to 8.0, the weighted average cost of capital of 18.0% to 20.0%, and the EBITDA multiple of 5.8 to 11.5. A 0.5 increase of the exit multiple, 1.0% decrease in the weighted average cost of capital, and 0.5 increase in the EBITDA multiple would increase the fair value by $2.2 million (2017: $0.7 million). The estimate is also adjusted for the effect of the non-marketability of these investments.

Note 8 Loans

Credit Quality

ATB's loan portfolio consists of the following:

As at March 31, 2018			Allowances assessed		
($ in thousands)	**Gross loans**	**Individually**	**Collectively**	**Net carrying value**
Business	**$ 21,439,814**	**$ 278,927**	**$ 130,107**	**$ 21,030,780**
Residential mortgages	**15,750,430**	**5,732**	**10,129**	**15,734,569**
Personal	**6,711,755**	**22,655**	**37,589**	**6,651,511**
Credit card	**718,065**	**-**	**23,885**	**694,180**
Total	**$ 44,620,064**	**$ 307,314**	**$ 201,710**	**$ 44,111,040**

As at March 31, 2017		Allowances assessed		
($ in thousands)	Gross loans	Individually	Collectively	Net carrying value
Business	$ 19,046,406	$ 237,938	$ 127,031	$ 18,681,437
Residential mortgages	14,947,751	6,226	14,507	14,927,018
Personal	6,622,936	36,936	58,258	6,527,742
Credit card	703,817	-	28,792	675,025
Total	$ 41,320,910	$ 281,100	$ 228,588	$ 40,811,222

The total net carrying value of the above loans includes those denominated in U.S. funds, totalling $758.7 million as at March 31, 2018 (2017: $766.6 million). As at March 31, 2018, the amount of foreclosed assets held for resale is $14.6 million (2017: $8.9 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, 2018 *($ in thousands)*	**Residential mortgages**	**Business**	**Personal**	**Credit card[1]**	**Total**	**Percentage of total gross loans**
Up to 1 month	**$ 103,071**	**$ 73,192**	**$ 45,361**	**$ 36,252**	**$ 257,876**	**0.58%**
Over 1 month up to 2 months	**111,230**	**172,837**	**57,781**	**10,349**	**352,197**	**0.79%**
Over 2 months up to 3 months	**15,944**	**6,412**	**5,356**	**4,361**	**32,073**	**0.07%**
Over 3 months	**1,308**	**18,571**	**1,764**	**5,583**	**27,226**	**0.06%**
Total past due but not impaired	**$ 231,553**	**$ 271,012**	**$ 110,262**	**$ 56,545**	**$ 669,372**	**1.5%**

As at March 31, 2017 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card[1]	Total	Percentage of total gross loans
Up to 1 month	$ 96,929	$ 315,414	$ 52,355	$ 32,975	$ 497,673	1.2%
Over 1 month up to 2 months	108,176	85,822	45,627	10,441	250,066	0.61%
Over 2 months up to 3 months	16,766	22,832	21,061	4,422	65,081	0.16%
Over 3 months	3,013	21,192	3,050	8,540	35,795	0.09%
Total past due but not impaired	$ 224,884	$ 445,260	$ 122,093	$ 56,378	$ 848,615	2.1%

[1] Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

As at March 31, 2018, $7.4 million (2017: $282.5 million) of the total loans past due up to one month are one day overdue, and no amounts were repaid the next business day (2017: $145.6 million).

Impaired Loans

Impaired loans, including the related allowances, are as follows:

As at March 31, 2018 *($ in thousands)*	**Gross impaired loans**	**Allowances individually assessed**	**Net carrying value**
Business	**$ 476,605**	**$ 278,927**	**$ 197,678**
Residential mortgages	**79,190**	**5,732**	**73,458**
Personal	**57,744**	**22,655**	**35,089**
Total	**$ 613,539**	**$ 307,314**	**$ 306,225**

As at March 31, 2017 *($ in thousands)*	Gross impaired loans	Allowances individually assessed	Net carrying value
Business	$ 424,295	$ 237,938	$ 186,357
Residential mortgages	81,165	6,226	74,939
Personal	82,789	36,936	45,853
Total	$ 588,249	$ 281,100	$ 307,149

Financial Information

Note 9 Allowance for Loan Losses

The allowance for loan losses recorded in the Consolidated Statement of Financial Position is maintained at a level management considers adequate to absorb loan-related losses for all items in the loan portfolio. The continuity of the allowance for loan losses is as follows:

As at March 31 *($ in thousands)*		**2018**		2017
Collectively assessed				
Balance at beginning of the year	**$**	**228,588**	$	207,136
(Recovery of) provision for loan losses		**(26,878)**		21,452
Balance at end of the year		**201,710**		228,588
Individually assessed				
Balance at beginning of the year	**$**	**281,100**	$	265,720
Write-offs		**(112,771)**		(197,748)
Recoveries		**16,227**		10,787
Discount of cash flows on impaired loans		**(9,126)**		(11,196)
Provision for loan losses		**131,884**		213,537
Balance at end of the year		**307,314**		281,100
Total	**$**	**509,024**	$	509,688

Note 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 options and 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 customers 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 portfolio to manage ATB's and its corporate customers' 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 customers. 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 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)*	**2018** **Favourable position**	**2018** **Unfavourable position**	2017 Favourable position	2017 Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Swaps	**$ 29,300**	**$ (11,202)**	$ 18,256	$ (23,875)
Futures	**-**	**-**	-	(212)
Other	**32,690**	**(42,340)**	36,102	(28,770)
	61,990	**(53,542)**	54,358	(52,857)
Embedded derivatives				
Market-linked deposits	**-**	**(1,835)**	-	(1,835)
	-	**(1,835)**	-	(1,835)
Foreign-exchange contracts				
Forwards	**25,308**	**(17,907)**	11,582	(10,582)
Cross-currency swaps	**19,118**	**(24,362)**	65,221	(32,302)
Commodity contracts				
Forwards	**348,224**	**(331,586)**	163,448	(148,230)
Total fair-value-ineligible contracts	**392,650**	**(373,855)**	240,251	(191,114)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	**122,072**	**(243,930)**	156,238	(93,286)
Total fair-value-eligible contracts	**122,072**	**(243,930)**	156,238	(93,286)
Total fair value	**$ 576,712**	**$ (673,162)**	$ 450,847	$ (339,092)
Less impact of master netting agreements	**(387,632)**	**387,632**	(245,607)	245,607
Less impact of financial institution counterparty collateral held/posted	**(13,973)**	**175,892**	(126,776)	-
Residual credit exposure on derivatives to ATB	**$ 175,107**	**$ (109,638)**	$ 78,464	$ (93,485)

The residual credit exposure presented above includes contracts with financial institutions and client counterparties. For the residual amounts above, $175.2 million (2017: $78.5 million) of the derivative asset and $107.8 million (2017: $57.1 million) of the derivative liability exposure relates to client counterparties.

ATB has recognized an unrealized loss of $3.6 million in profit and loss during the year (2017: unrealized loss of $4.5 million) relating to accounting for ineffectiveness arising from its cash flow hedges.

The following shows when hedged cash flows will be recognized in the Consolidated Statement of Income:

As at March 31, 2018 *($ in thousands)*	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Cash inflows	**$ 389,275**	**$ 334,566**	**$ 254,567**	**$ 181,534**	**$ 94,383**	**$ 159,856**	**$ 1,414,181**
Cash outflows	**(502,754)**	**(443,222)**	**(348,812)**	**(264,785)**	**(164,206)**	**(364,912)**	**(2,088,691)**
Net cash flows	**$ (113,479)**	**$ (108,656)**	**$ (94,245)**	**$ (83,251)**	**$ (69,823)**	**$ (205,056)**	**$ (674,510)**

As at March 31, 2017 ($ in thousands)	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Cash inflows	$ 288,333	$ 223,559	$ 183,622	$ 152,565	$ 106,334	$ 189,441	$ 1,143,854
Cash outflows	(337,109)	(282,564)	(245,794)	(209,403)	(150,068)	(371,572)	(1,596,510)
Net cash flows	$ (48,776)	$ (59,005)	$ (62,172)	$ (56,838)	$ (43,734)	$ (182,131)	$ (452,656)

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 10 years as at March 31, 2018 (March 31, 2017: 10 years).

Term to Maturity

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged and have varying maturity dates. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Statement of Financial Position. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

			Residual term of contract				
As at March 31, 2018 *($ in thousands)*	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	**$ 3,601,890**	**$ 19,412,575**	**$ 2,770,293**	**$ 4,088,289**	**$ 12,603,066**	**$ 3,552,817**	**$ 23,014,465**
Other	**2,271,123**	**-**	**97,842**	**409,875**	**1,048,759**	**714,647**	**2,271,123**
Embedded derivatives							
Market-linked deposits	**422,857**	**-**	**-**	**422,840**	**17**	**-**	**422,857**
Foreign-exchange contracts							
Forwards	**3,280,264**	**-**	**2,674,575**	**431,341**	**174,348**	**-**	**3,280,264**
Cross-currency swaps	**1,058,731**	**-**	**-**	**171,497**	**606,994**	**280,240**	**1,058,731**
Commodity contracts							
Forwards	**2,501,998**	**-**	**619,150**	**1,149,115**	**733,733**	**-**	**2,501,998**
Exchange-traded contracts							
Interest rate contracts							
Futures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 13,136,863**	**$ 19,412,575**	**$ 6,161,860**	**$ 6,672,957**	**$ 15,166,917**	**$ 4,547,704**	**$ 32,549,438**

As at March 31, 2017 *($ in thousands)*	Ineligible for hedge accounting	Eligible for hedge accounting	Residual term of contract Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 3,881,306	$ 16,155,975	$ 1,685,000	$ 2,690,000	$ 11,741,881	$ 3,920,400	$ 20,037,281
Other	1,214,642	-	33,510	85,994	744,750	350,388	1,214,642
Embedded derivatives							
Market linked deposits	422,857	-	-	-	422,857	-	422,857
Foreign-exchange contracts							
Forwards	2,110,742	-	1,775,632	80,598	230,295	24,217	2,110,742
Cross-currency swaps	2,016,983	-	-	113,573	673,935	1,229,475	2,016,983
Commodity contracts							
Forwards	2,338,125	-	509,200	518,935	1,305,859	4,131	2,338,125
Exchange-traded contracts							
Interest rate contracts							
Futures	20,000	-	20,000	-	-	-	20,000
Total	$ 12,004,655	$ 16,155,975	$ 4,023,342	$ 3,489,100	$ 15,119,577	$ 5,528,611	$ 28,160,630

In addition to the notional amounts of derivative instruments shown above, ATB has certain foreign-exchange spot deals that settle in one day. These deals had notional amounts of $0.02 million as at March 31, 2018 (2017: $0.07 million).

Derivative-Related Credit Risk

Derivative financial instruments traded in the OTC market are subject to credit risk of a financial loss occurring if a counterparty defaults on its contractual obligation. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position. ATB endeavours to limit its credit risk by dealing only with counterparties assessed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A-low/A3/A- or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

The 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 potential future exposure, which is defined in a guideline authorized by the President of Treasury Board and Minister of Finance (the Minister), which 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:

	2018			2017		
As at March 31 *($ in thousands)*	**Replacement cost**	**Credit equivalent amount**	**Risk-adjusted balance**	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Contracts ineligible for hedge accounting						
Interest rate contracts						
Swaps	**$ 29,300**	**$ 36,110**	**$ 7,222**	$ 18,255	$ 23,396	$ 4,679
Other	**32,690**	**39,967**	**15,602**	36,102	42,099	20,487
Foreign-exchange contracts						
Forwards	**25,308**	**46,676**	**14,699**	11,582	26,624	9,226
Cross-currency swaps	**19,118**	**48,827**	**11,998**	65,222	166,967	34,614
Commodity contracts						
Forwards	**348,224**	**480,873**	**176,552**	163,297	289,429	89,741
Contracts eligible for hedge accounting						
Interest rate contracts						
Swaps	**122,072**	**166,647**	**33,329**	156,389	214,404	42,881
Total	**$ 576,712**	**$ 819,100**	**$ 259,402**	$ 450,847	$ 762,919	$ 201,628

Note 11 Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	Leasehold improvements under construction	Computer and other equipment under development	Buildings under finance lease	Equipment under finance lease	Land	Total
Cost										
Balance as at April 1, 2016	$ 233,156	$ 86,764	$ 99,261	$ 75,668	$ 8,480	$ 14,213	$ 229,804	$ -	$ 7,360	$ 754,706
Acquisitions	10,186	13,846	2,263	4,174	2,208	9,048	27,769	-	-	69,494
Disposals	(6,160)	(15,435)	-	(912)	(8,387)	(13,638)	(11,373)	-	(32)	(55,937)
Balance as at March 31, 2017	$ 237,182	$ 85,175	$ 101,524	$ 78,930	$ 2,301	$ 9,623	$ 246,200	$ -	$ 7,328	$ 768,263
Balance as at April 1, 2017	**$ 237,182**	**$ 85,175**	**$ 101,524**	**$ 78,930**	**$ 2,301**	**$ 9,623**	**$ 246,200**	**$ -**	**$ 7,328**	**$ 768,263**
Acquisitions	**4,195**	**12,466**	**1,267**	**4,737**	**5,879**	**8,789**	**3,456**	**3,919**	**-**	**44,708**
Disposals	**-**	**-**	**-**	**(2,127)**	**(2,345)**	**(9,381)**	**(2,413)**	**-**	**-**	**(16,266)**
Balance as at March 31, 2018	**$ 241,377**	**$ 97,641**	**$ 102,791**	**$ 81,540**	**$ 5,835**	**$ 9,031**	**$ 247,243**	**$ 3,919**	**$ 7,328**	**$ 796,705**
Depreciation										
Balance as at April 1, 2016	$ 130,729	$ 48,185	$ 68,269	$ 49,791	$ -	$ -	$ 79,400	$ -	$ -	$ 376,374
Depreciation for the year	13,819	20,253	2,084	8,988	-	-	17,751	-	-	62,895
Disposals	(6,160)	(15,435)	-	(885)	-	-	(11,276)	-	-	(33,756)
Balance as at March 31, 2017	$ 138,388	$ 53,003	$ 70,353	$ 57,894	$ -	$ -	$ 85,875	$ -	$ -	$ 405,513
Balance as at April 1, 2017	**$ 138,388**	**$ 53,003**	**$ 70,353**	**$ 57,894**	**$ -**	**$ -**	**$ 85,875**	**$ -**	**$ -**	**$ 405,513**
Depreciation for the year	**12,594**	**19,894**	**2,190**	**8,986**	**-**	**-**	**17,776**	**1,198**	**-**	**62,638**
Disposals	**-**	**-**	**-**	**(2,126)**	**-**	**-**	**(2,412)**	**-**	**-**	**(4,538)**
Balance as at March 31, 2018	**$ 150,982**	**$ 72,897**	**$ 72,543**	**$ 64,754**	**$ -**	**$ -**	**$ 101,239**	**$ 1,198**	**$ -**	**$ 463,613**
Carrying amounts										
Balance as at March 31, 2017	$ 98,794	$ 32,172	$ 31,171	$ 21,036	$ 2,301	$ 9,623	$ 160,325	$ -	$ 7,328	$ 362,750
Balance as at March 31, 2018	**$ 90,395**	**$ 24,744**	**$ 30,248**	**$ 16,786**	**$ 5,835**	**$ 9,031**	**$ 146,004**	**$ 2,721**	**$ 7,328**	**$ 333,092**

For the year ended March 31, 2018, depreciation expense charged to the Consolidated Statement of Income for premises and equipment was $62.6 million (2017: $62.9 million). No impairment write-downs were recognized during the year ended March 31, 2018 (2017: nil). A gain of $10.9 million (2017: a loss of $0.05 million) was recognized during the year for the disposal of capital assets.

Note 12 Software and Other Intangibles

($ in thousands)	Purchased software	Software under development	Other intangibles	Total
Cost				
Balance as at April 1, 2016	$ 415,877	$ 38,462	$ -	$ 454,339
Acquisitions	62,496	34,812	193	97,501
Disposals	(22,386)	(35,689)	-	(58,075)
Balance as at March 31, 2017	$ 455,987	$ 37,585	$ 193	$ 493,765
Balance as at April 1, 2017	**$ 455,987**	**$ 37,585**	**$ 193**	**$ 493,765**
Acquisitions	**57,369**	**61,118**	**4**	**118,491**
Disposals	**-**	**(32,893)**	**-**	**(32,893)**
Balance as at March 31, 2018	**$ 513,356**	**$ 65,810**	**$ 197**	**$ 579,363**
Accumulated Amortization				
Balance as at April 1, 2016	$ 183,367	$ -	$ -	$ 183,367
Amortization for the year	58,149	-	18	58,167
Disposals	(22,385)	-		(22,385)
Balance as at March 31, 2017	$ 219,131	$ -	$ 18	$ 219,149
Balance as at April 1, 2017	**$ 219,131**	**$ -**	**$ 18**	**$ 219,149**
Amortization for the year	**67,400**	**-**	**18**	**67,418**
Disposals	**-**	**-**	**-**	**-**
Balance as at March 31, 2018	**$ 286,531**	**$ -**	**$ 36**	**$ 286,567**
Carrying amounts				
Balance as at March 31, 2017	$ 236,856	$ 37,585	$ 175	$ 274,616
Balance as at March 31, 2018	**$ 226,825**	**$ 65,810**	**$ 161**	**$ 292,796**

For the year ended March 31, 2018, amortization expense charged to the Consolidated Statement of Income for software and intangibles was $67.4 million (2017: $58.2 million). No impairment write-downs were recognized during the year ended March 31, 2018 (2017: nil).

Note 13 Other Assets

Other assets consist of the following:

As at March 31 *($ in thousands)*	**2018**	2017
Prepaid expenses and other receivables	**$ 194,444**	$ 179,874
Accrued interest receivable	**60,612**	49,835
Other	**117,794**	20,954
Total	**$ 372,850**	$ 250,663

Of the $117.8 million included in other assets is $95.2 million for an amount owed to ATB for a liquidity management product we sold before March 31, 2018 (March 31, 2017: nil), for which we have not received funds.

Note 14 Deposits

Deposit balances consist of the following:

As at March 31, 2018 *($ in thousands)*	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	
Personal	**$ 8,265,724**	**$ 3,104,840**	**$ 1,333,977**	**$ 456,824**	**$ 132,823**	**$ 291,291**	**$ 388**	**$ 13,585,867**
Business and other	**15,349,278**	**3,156,416**	**327,657**	**111,391**	**41,818**	**37,379**	**73,967**	**19,097,906**
Total	**$23,615,002**	**$ 6,261,256**	**$ 1,661,634**	**$ 568,215**	**$ 174,641**	**$ 328,670**	**$ 74,355**	**$ 32,683,773**

As at March 31, 2017 *($ in thousands)*	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	
Personal	$ 8,466,127	$ 2,662,373	$ 1,329,614	$ 630,762	$ 104,926	$ 122,376	$ 539	$ 13,316,717
Business and other	15,470,885	4,514,071	231,297	224,830	68,246	29,636	72,078	20,611,043
Total	$ 23,937,012	$ 7,176,444	$ 1,560,911	$ 855,592	$ 173,172	$ 152,012	$ 72,617	$ 33,927,760

The total deposits presented above include $1.2 billion (2017: $1.4 billion) denominated in U.S. funds.

As at March 31, 2018, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule totalled $61.9 million (2017: $108.9 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, 2018, the fee was $49.4 million (2017: $47.6 million), with $41.6 million (2017: $42.8 million) recorded to non-interest expenses for deposits and the remainder to net interest income for wholesale borrowings.

Note 15 Collateralized Borrowings

Canada Mortgage Bonds (CMB) Program

ATB periodically securitizes insured residential mortgage loans by participating in the *National Housing Act* Mortgage-Backed Security (NHA MBS) Program. Through the program, ATB bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (MBS). The MBS issued are sold to the Canada Housing Trust (CHT) as part of the Canada Mortgage Bonds (CMB) program, or to third-party investors. CHT uses the proceeds of its bond issuance to finance the purchase of MBS issued by ATB. As an issuer of the MBS, ATB is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of 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 MBS does not qualify for derecognition, as ATB retains the prepayment, credit, and interest rate risks associated with the mortgages, which represent substantially all of the risks and rewards. Also included in the collateralized borrowing liabilities are accrued interest, deferred transaction costs, and premiums and discounts, representing the difference between cash proceeds and the notional amount of the liability issued. Accrued interest on the collateralized borrowing liability is based on the CMB coupon for each respective series. At the time of the CMB coupon settlement, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by ATB.

There are no expected credit losses on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of ATB in the event of failure of debtors to pay when due.

As part of a CMB transaction, ATB must enter into a total return swap with highly rated counterparties, exchanging cash flows of the CMB for those of the MBS transferred to CHT. Any excess or shortfall in these cash flows is absorbed by ATB. These swaps are not recognized on ATB's Consolidated 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, 2018, is $7.8 billion (2017: $6.4 billion).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to the CHT are transferred to the CHT monthly, where they are either reinvested in new MBS 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 residential mortgage loans, 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)*	2018	2017
Principal value of mortgages pledged as collateral	**$ 6,947,936**	$ 6,099,603
ATB mortgage-backed securities pledged as collateral through repurchase agreements	**983,153**	365,706
Principal value of credit card receivables pledged as collateral	**620,851**	606,544
Total	**$ 8,551,940**	$ 7,071,853
Associated liabilities	**$ 8,408,453**	$ 6,812,660

Note 16 Other Liabilities

Other liabilities consist of the following:

As at March 31 *($ in thousands)*	Note	2018	2017
Accounts payable and accrued liabilities		**$ 632,390**	$ 667,804
Accrued interest payable		**110,287**	103,627
Payment in lieu of tax and income taxes payable	20	**81,436**	45,038
Due to clients, brokers, and dealers		**74,363**	75,773
Accrued pension-benefit liability	19	**63,045**	89,286
Achievement notes	24	**59,152**	54,555
Deposit guarantee fee payable		**49,379**	47,628
Total		**$ 1,070,052**	$ 1,083,711

Note 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 payment in lieu of tax for each fiscal year.

Subordinated debentures consist of the following:

As at March 31 *($ in thousands)* Maturity date	Interest rate	2018	2017
June 30, 2017	3.3%	**$ -**	$ 58,280
June 30, 2018	3.4%	**73,122**	73,122
June 30, 2019	2.8%	**82,564**	82,564
June 30, 2020	3.0%	**98,177**	98,177
June 30, 2021	2.3%	**32,298**	32,298
June 30, 2022	1.6%	**45,038**	-
Total		**$ 331,199**	$ 344,441

Note 18 Salaries and Benefits

The following table discloses the amounts earned by board members and key senior executives in the year ended March 31, 2018:

	2018								2017	2016
		Incentive plan								
($ in thousands)	Base salary [1]	Short-term [2]	Long-term [3]	Other cash benefits [4]	Other non-cash benefits [5]	Sub-total	Retirement and other post-employment benefits [6]	Total	Total	Total
Brian Hesje Chair of the Board	$ 70	$ -	$ -	$ -	$ -	$ 70	$ -	$ 70	$ 63	$ 62
Board members [7]	464	-	-	-	-	464	-	464	410	383
Dave Mowat [8] President and Chief Executive Officer	500	875	811	22	14	2,222	2,899	5,121	1,587	3,671
Curtis Stange [9] Chief Customer Officer	350	510	526	15	12	1,413	76	1,489	1,125	1,054
Robert McGee [9] Chief Financial Officer and Head of Operations	375	410	533	16	13	1,347	74	1,421	1,102	866
Wellington Holbrook [9] Chief Transformation Officer	325	474	492	1	14	1,306	73	1,380	1,003	973
Chris Turchansky President, Investor Services	289	277	293	6	21	886	64	950	814	733
Robert Bennett Executive Vice-President, Retail Financial Services	289	252	303	12	22	878	47	925	826	807
Lorne Rubis [9] Chief Evangelist	290	187	334	-	20	831	58	889	777	789
Teresa Clouston [9] Executive Vice-President, Business and Agriculture	250	232	229	14	17	742	50	793	400	-
Peggy Garritty Chief Reputation and Brand Officer	275	180	304	15	10	784	51	835	710	676
Lisa McDonald Chief Risk Officer	250	164	250	14	14	692	36	728	-	-
Elizabeth Stretch [9] Chief People Officer	250	161	248	17	12	688	43	731	208	-
Tim Gillespie Executive Vice-President, Corporate Financial Services	233	162	197	22	20	634	31	665	302	-

[1] Base salary consists of all regular base pay earned.

[2] Short-term incentive plan pay is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.

[3] Long-term incentive includes the grant awarded for the year and the appreciation for the year, applied to maturing grants. Payment of the year's grant is deferred for up to three years and will include appreciation or depreciation annually based on ATB's long-term risk adjusted return on capital (RAROC) performance and depends on the employee's continued employment with ATB.

[4] Other cash benefits consist of perquisite allowances, severance, and other direct cash remuneration.

[5] Other non-cash benefits consist of ATB's share of employee benefits and contributions or payments made on behalf of employees.

[6] The retirement and other post-employment benefits are largely unfunded obligations and are paid from operating revenues as they come due. None of these costs represent cash payments in the period; they represent the period expense for future payments. These benefit costs represent the actuarially estimated cost incurred in the year ended March 31, 2018.

[7] The board consists of 13 members plus the chair, whose remuneration is disclosed separately.

[8] The incumbent has agreed to terminate the original post-employment benefit plan and instead participate in an individual registered pension plan and a supplemental retirement plan that will be retroactively implemented in 2017 for all prior employment service. This enables ATB to reduce its costs substantially.

[9] A reorganization occurred in September 2016. A number of senior executives changed positions and four executives were added to the team.

Retirement and Other Post-Employment Benefits (OPEB)

Retirement and other post-employment benefits presented in the Salaries and Benefits table reflect the period expense for pension and other post-employment benefit (OPEB) rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit (DB) or defined contribution provisions of ATB's registered pension plan (the ATB Plan) or the non-registered notional supplemental plan together with participation in the non-registered DB supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 19.)

	2018					2017	2016
($ in thousands)	Registered plan service cost	Supplemental and other post-employment benefit service costs (1)	Notional plan service costs	Interest and costs (2)	Total	Total	Total
Dave Mowat (3) President and Chief Executive Officer	**$ -**	**$ 438**	**$ -**	**$ 2,461**	**$ 2,899**	$ (532)	$ 1,776
Curtis Stange Chief Customer Officer	**6**	**62**	**8**	**-**	**76**	77	70
Robert McGee Chief Financial Officer and Head of Operations	**6**	**65**	**3**	**-**	**74**	67	27
Wellington Holbrook Chief Transformation Officer	**6**	**60**	**7**	**-**	**73**	75	71
Chris Turchansky President, Investor Services	**7**	**50**	**7**	**-**	**64**	65	60
Robert Bennett Executive Vice-President, Retail Financial Services	**6**	**35**	**6**	**-**	**47**	45	59
Lorne Rubis Chief Evangelist	**9**	**43**	**6**	**-**	**58**	60	56
Teresa Clouston Executive Vice-President, Business and Agriculture	**10**	**39**	**1**	**-**	**50**	18	-
Peggy Garritty Chief Reputation and Brand Officer	**10**	**38**	**3**	**-**	**51**	49	34
Lisa McDonald Chief Risk Officer	**15**	**20**	**1**	**-**	**36**	-	-
Elizabeth Stretch Chief People Officer	**13**	**28**	**2**	**-**	**43**	13	-
Tim Gillespie Executive Vice-President, Corporate Financial Services	**12**	**17**	**2**	**-**	**31**	11	-

[1] As the SRP and the OPEB provided are unfunded obligations and paid from operating revenues as they come due, none of the SRP and OPEB costs represent cash payments in the period; they represent the period expense for rights to future payments. These benefit costs also represent the total estimated cost incurred in the year ended March 31, 2018, to provide annual pension income over an actuarially determined post-employment period.

[2] Interest and other costs include the notional return granted on the total notional plan outstanding balance. For the president and chief executive officer, this includes the cumulative impact of the change in obligation due to the change in the retirement benefit plans.

[3] The incumbent has agreed to terminate the original post-employment benefit plan and instead participate in an individual registered pension plan and a supplemental retirement plan that will be retroactively implemented in 2017 for all prior employment service.

The accrued SRP and OPEB obligation for each executive is as follows:[(1)]

($ in thousands)	Accrued obligation March 31, 2017	Change in accrued obligation	**Accrued obligation March 31, 2018**
Dave Mowat [(1)]			
President and Chief Executive Officer	$ 9,329	$ (9,329)	**$ -**

[1] For the president and chief executive officer, the change in the accrued obligation is primarily a result of being paid his entitled SPP pension benefits as a lump sum during the fiscal year upon his retirement.

Note 19 Employee Benefits

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 Minister is the legal trustee for the plan and, accordingly, Alberta Treasury Board and Finance is the manager of the plan. The plan is governed by the Public Service Pension Board.

The plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the year's maximum pensionable earnings and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*.

As a participant in this plan, ATB and its participating employees are responsible for making current service contributions sufficient to provide for the accruing service of members and the amortization of any unfunded liability. ATB's share of the current service contributions (employer and employee) is based on the current pensionable earnings of active ATB participants (prorated against the total current pensionable earnings of all active PSPP members). The employer and employee share the required contributions 50/50.

Although the PSPP pools all assets and liabilities of participating employers and there is no allocation of assets and liabilities to participating employers, in order to recognize an estimate of its current liability under this plan, ATB has applied defined benefit (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, 2018, based on its pro rata share of contributions into the plan, adjusted for its pro rata contribution rate (split 50/50 between employer and employee). ATB 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 defined contribution (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 Government of Alberta to assume pension obligations relating to current ATB employees who participated in the PSPP prior to joining the ATB Plan (the PSPP take-on). The arrangements formalized ATB's commitment to providing combined pensionable service (CPS) benefits for qualifying members whose CPS benefits were affected by the withdrawal of ATB from the Management Employees Pension Plan.

Since June 27, 2014, any promotion to management positions joins the plan under the DC provision and any pension benefit earned in the PSPP is deferred at Alberta Pension Services Corporation (APS) or, if eligible, the employee may choose to withdraw their pension benefit.

Non-Registered Plans

ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (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 human resources 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
- Limits market risks associated with the underlying fund assets

Breakdown of Defined Benefit Obligation

The breakdown of the DB obligations for each plan is as follows:

As at March 31, 2018 *($ in thousands)*	**Registered plan**	**Supplemental and other**	**ATB's share of PSPP**
Active	**$ 163,635**	**$ 2,185**	**$ 141,521**
Deferred	**21,987**	**952**	**38,103**
Pensioners and beneficiaries	**230,853**	**6,474**	**133,035**
Total defined benefit obligation	**$ 416,475**	**$ 9,611**	**$ 312,659**

As at March 31, 2017 *($ in thousands)*	Registered plan	Supplemental and other	ATB's share of PSPP
Active	$ 164,693	$ 9,118	$ 144,540
Deferred	21,262	955	38,702
Pensioners and beneficiaries	225,517	6,180	118,376
Total defined benefit obligation	$ 411,472	$ 16,253	$ 301,618

Breakdown of Plan Assets

A breakdown of plan assets for the ATB Plan is as follows:

	2018		2017	
As at March 31 ($ in thousands)	**Non-quoted on an active market**	**Quoted on an active market**	Non-quoted on an active market	Quoted on an active market
Bonds				
Provinces, municipal corporations, and other public administrations	**$ -**	**$ 84**	$ -	$ 89
Other issuers	**-**	**311,215**	-	249,467
Shares	**-**	**117,165**	-	170,600
Cash and money market securities	**-**	**2,930**	-	(442)
Total fair value of plan assets	**$ -**	**$ 431,394**	$ -	$ 419,714

Asset/Liability Matching Strategy

The 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 with 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 is conducted every three to five years, whereby the investment policy is reviewed in more detail.

Cash Payments

For the year ended March 31, 2018, total cash paid or payable for employee benefits—cash contributed by ATB for the DB and DC provisions of the ATB Plan—cash payments made directly to beneficiaries for the unfunded SRP and cash contributed to the PSPP was $56.8 million (2017: $44.2 million).

Contributions expected during the upcoming year are $6.4 million (2017: $4.5 million) for the DB portion of the ATB plan, $0.4 million (2017: $0.4 million) for the unfunded SRP and CPS, and $12.3 million (2017: $14.3 million) for the PSPP.

Pension Plan Obligation Maturity Profile

For 2018, the weighted-average financial duration of the main group plans was approximately 16 years (2017: 17 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, and OPEB, and the notional supplemental plan (NSP) consist of the following:

As at March 31 *($ in thousands)*	2018	2017
Registered plan		
Fair value of plan assets	$ 431,394	$ 419,714
Projected benefit obligation	(416,475)	(411,472)
Net pension-benefit asset[(1)]	$ 14,919	$ 8,242
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	$ (9,611)	$ (19,203)
Net pension-benefit liability[(1)]	$ (9,611)	$ (19,203)
ATB's share of PSPP		
Fair value of plan assets	$ 250,046	$ 226,682
Projected benefit obligation	(312,659)	(301,618)
Net pension-benefit liability[(1)]	$ (62,613)	$ (74,936)
Notional supplemental plan liability	$ (5,740)	$ (3,389)
Total net pension-benefit liability[(1) (2)]	$ (63,045)	$ (89,286)

[1] 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. (Refer to note 16.)

Other Comprehensive Income

As at March 31	Registered plan		Supplemental and other		ATB's share of PSPP	
($ in thousands)	**2018**	2017	**2018**	2017	**2018**	2017
Actuarial (gain) loss on plan assets	$ (10,408)	$ (13,199)	$ -	$ -	$ (10,225)	$ 4,490
Effect of changes in demographic assumptions	-	-	-	(236)	-	-
Effect of changes in financial assumptions	6,107	1,337	255	468	8,003	4,151
Experience loss (gain) on plan liabilities	(973)	16,422	(278)	196	(12,667)	(22,180)
Amount recognized in other comprehensive loss	$ (5,274)	$ 4,560	$ (23)	$ 428	$ (14,889)	$ (13,539)
Beginning balance, accumulated other comprehensive loss	67,177	62,617	4,678	4,250	165	13,704
Ending balance, accumulated other comprehensive loss (income)	$ 61,903	$ 67,177	$ 4,655	$ 4,678	$ (14,724)	$ 165

Financial Information

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)	**2018**	2017	**2018**	2017	**2018**	2017
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	**$ 419,714**	$ 405,546	**$ -**	$ -	**$ 226,682**	$ 218,832
Contributions from ATB	**2,162**	3,083	**12,661**	2,785	**13,492**	13,756
Contributions from employees	**-**	262	**-**	-	**-**	-
Interest income	**15,753**	15,614	**-**	-	**8,708**	8,643
Actuarial gain (loss) on plan assets	**10,291**	13,892	**-**	-	**10,225**	(4,490)
Benefits paid	**(15,507)**	(16,870)	**(12,661)**	(2,785)	**(9,061)**	(10,059)
Actual plan expenses	**(1,019)**	(1,813)	**-**	-	**-**	-
Fair value of plan assets at end of the year	**$ 431,394**	$ 419,714	**$ -**	$ -	**$ 250,046**	$ 226,682
Change in defined benefit obligation						
Projected benefit obligation at beginning of the year	**$ 411,472**	$ 394,472	**$ 19,203**	$ 16,804	**$ 301,618**	$ 304,511
Effect of changes in demographic assumptions	**-**	-	**-**	(236)	**-**	-
Effect of changes in financial assumptions	**6,107**	1,337	**255**	468	**8,003**	4,151
Experience (gain) loss on plan liabilities	**(973)**	16,422	**(278)**	196	**(12,667)**	(22,180)
Current-service costs	**-**	729	**438**	761	**13,481**	13,501
Contributions from employees	**-**	262	**-**	-	**-**	-
Past-service costs	**-**	-	**3,150**	3,345	**-**	-
(Gain)/loss on settlements	**-**	-	**(1,030)**	-	**-**	-
Interest expense	**15,376**	15,120	**534**	650	**11,285**	11,694
Benefits paid	**(15,507)**	(16,870)	**(12,661)**	(2,785)	**(9,061)**	(10,059)
Defined benefit obligation at end of the year	**$ 416,475**	$ 411,472	**$ 9,611**	$ 19,203	**$ 312,659**	$ 301,618
Net pension-benefit asset (liability)	**$ 14,919**	$ 8,242	**$ (9,611)**	$ (19,203)	**$ (62,613)**	$ (74,936)

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)	**2018**	2017	**2018**	2017	**2018**	2017
Current-service costs	**$ -**	$ 729	**$ 438**	$ 761	**$ 13,481**	$ 13,501
Past-service costs	**-**	-	**3,150**	3,345	**-**	-
(Gain)/loss on settlements	**-**	-	**(1,030)**	-	**-**	-
Interest expense	**15,376**	15,120	**534**	650	**11,285**	11,694
Interest income	**(15,753)**	(15,614)	**-**	-	**(8,708)**	(8,643)
Administrative expenses and taxes	**1,136**	1,120	**-**	-	**-**	-
Net pension-benefit expense recognized	**$ 759**	$ 1,355	**$ 3,092**	$ 4,756	**$ 16,058**	$ 16,552

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	
	2018	2017	**2018**	2017	**2018**	2017
Accrued benefit obligation as at March 31						
Discount rate at end of the year	**3.6%**	3.8%	**3.6%**	3.8%	**3.6%**	3.8%
Rate of compensation increase[1]	-	3.8%	-	3.8%	**3.3%**	3.8%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of the year	**3.8%**	3.9%	**3.8%**	3.9%	**3.8%**	3.9%
Rate of compensation increase[1]	-	3.8%	-	3.8%	**3.5%**	3.8%
ATB's share of PSPP contributions	-	-	-	-	**3.7%**	3.7%

[1] The long-term weighted-average rate of compensation increase, including merit and promotion.

The following table outlines the possible impact of changes in certain key weighted-average economic assumptions used to measure the accrued pension-benefit obligations as at March 31, 2018, and the related expense for the year then ended:

		Registered plan		Supplemental and other		ATB's share of the PSPP	
As at March 31, 2018 *($ in thousands)*		Benefit obligation	Benefit expense	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Discount rate							
Impact of:	1.0% increase	$ (56,364)	$ (2,767)	$ (1,097)	$ 40	$ (44,813)	$ (3,983)
	1.0% decrease	71,993	2,048	1,342	(55)	44,813	3,087
Inflation rate							
Impact of:	1.0% increase	38,114	1,372	19	-	23,847	2,156
	1.0% decrease	(33,631)	(1,210)	(18)	(1)	(23,947)	(2,156)
Rate of compensation increase							
Impact of:	0.25% increase	2,074	75	88	3	7,272	977
	0.25% decrease	(2,013)	(72)	(78)	(3)	(7,272)	(977)
Mortality							
Impact of:	10.0% increase	(7,434)	(267)	(152)	(6)	N/A[1]	N/A[1]
	10.0% decrease	8,157	294	168	7	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.

Note 20 Payment in Lieu of Tax

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax is calculated as 23% of net income reported under IFRS.

As at March 31, 2018, ATB accrued a total of $81.1 million (2017: $45.0 million) for payment in lieu of tax. The amount outstanding as at March 31, 2017, was settled on June 30, 2017, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 17.) The payment in lieu of tax will continue to be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated. (Refer to note 25.)

Included in ATB's payment in lieu of tax are income taxes relating to AltaCorp with the provision varying from what is calculated by applying the combined statutory Canadian federal and provincial income tax rate:

As at March 31, 2018 *($ in thousands)*		
Statutory income tax rate		27%
Expected income tax expense	**$**	**1,008**
Effect of:		
Small business deduction		**(484)**
Non-allowable expenses		**64**
Total income taxes	**$**	**588**
Current income taxes	**$**	**835**
Deferred income tax recovery		**(247)**
Total income taxes	**$**	**588**

The components of the deferred income tax asset and liability are as follows:

As at March 31, 2018 *($ in thousands)*	
Deferred income tax asset:	
Non-capital loss carryforwards	**$ 231**
Deferred leasehold inducement	**109**
Start-up costs	**2**
Donations	**-**
Deferred income tax liability:	
Property and equipment	**(100)**
Share issuance costs	**5**
Net deferred income tax asset	**$ 247**

Note 21 Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties. (Refer to note 14.) These services also include OTC foreign-exchange forwards to manage currency exposure. (Refer to note 10.) The fair values of the asset and liability associated with these derivative contracts as at March 31, 2018, are nil (2017: nil) and $0.5 million (2017: $0.5 million), respectively.

During the year, ATB leased certain premises from the Government of Alberta. For the year ended March 31, 2018, the total of these payments was $0.4 million (2017: $0.3 million). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits and a payment in lieu of tax. (Refer to notes 14 and 20.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 17.)

ATB entered into a wholesale borrowing agreement with the President of Treasury Board and Minister of Finance 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. Under this agreement, the Minister acts as fiscal agent of ATB under the *Financial Administration Act* and is involved in raising wholesale deposits in the marketplace. As at March 31, 2018, wholesale borrowings were $4.7 billion (2017: $2.9 billion) payable to the Minister.

Key management personnel are defined as those having authority and responsibility for planning, directing, and controlling the activities of ATB, and are considered related parties. ATB provides loans to key management personnel, their close family members, and their related entities on market conditions, except for banking products and services for key management personnel that are subject to approved guidelines governing all employees. As at March 31, 2018, $8.3 million (2017: $6.7 million) in loans were outstanding. Key management personnel have deposits provided at standard market rates. As at March 31, 2018, $0.6 million (2017: $0.9 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 key management personnel and their close family members. Key management personnel compensation is disclosed in note 18.

Key management personnel may also purchase achievement notes based on their role within ATB. As at March 31, 2018, $2.8 million (2017: $2.5 million) in achievement notes were outstanding to this group. No termination payments (2017: $1.4 million) were made to key management personnel during the year.

Note 22 Commitments, Guarantees, and Contingent Liabilities

Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer cannot meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either 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 customer.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

The amounts presented in the current and comparative year for commitments to extend credit include demand facilities of $15.7 billion (2017: $14.6 billion). For demand facilities, ATB considers the undrawn portion to represent a commitment to the customer; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. Credit facilities are contracted for a limited period of usually less than one year and may expire or terminate without being drawn upon. The contractual amounts of all such credit instruments are outlined in the table below:

As at March 31 *($ in thousands)*	**2018**	2017
Loan guarantees and standby letters of credit	**$ 564,130**	$ 541,237
Commitments to extend credit	**19,584,772**	18,716,044
Total	**$ 20,148,902**	$ 19,257,281

Pledged Assets

In the ordinary course of business, ATB grants a security interest in certain collateral (including securities, interest-bearing deposits with financial institutions, and loans and accounts) to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring.

As at March 31 *($ in thousands)*		**2018**		2017
Assets pledged to:				
Bank of Canada	**$**	**413,379**	$	399,419
Clearing and Depository Services Inc.		**16,000**		16,000
Total	**$**	**429,379**	$	415,419

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (Refer to 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 of such agreements include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the Consolidated Statement of Financial Position 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 operating leases for buildings and equipment. The expected payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

As at March 31 *($ in thousands)*	**2018**	2017
2018	**$ -**	$ 52,553
2019	**58,733**	38,270
2020	**33,650**	30,931
2021	**21,883**	23,178
2022	**15,749**	17,735
2023	**13,558**	14,160
Thereafter	**70,599**	80,448
Total	**$ 214,172**	$ 257,275

The total expense for premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2018, is $5.3 million (2017: $5.2 million).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

As at March 31 *($ in thousands)*	**2018**	2017
Future minimum lease payments:		
Not later than 1 year	**$ 30,496**	$ 28,339
Later than 1 year but not later than 5 years	**114,721**	118,254
Later than 5 years	**158,224**	181,624
Total future minimum lease payments	**303,441**	328,217
Less finance charges not yet due	**93,624**	108,178
Present value of finance lease commitments	**$ 209,817**	$ 220,039

Note 23 Interest Rate Risk

Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or repricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect net interest income while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

	Term to maturity/repricing								
As at March 31, 2018 ($ in millions)	Fixed rate within 3 months	Floating rate within 3 months	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
Assets									
Cash resources and securities	$ -	$ 5,888,526	$ 5,888,526	$ -	$ 5,888,526	$ -	$ -	$ 318,075	$ 6,206,601
Loans	6,466,927	19,262,262	25,729,189	4,559,754	30,288,943	13,157,061	767,150	(102,114)	44,111,040
Other assets	-	-	-	-	-	-	-	1,575,450	1,575,450
Derivative financial instruments[(1)]	-	-	7,924,275	1,555,000	9,479,275	7,027,300	2,906,000	-	19,412,575
Total	**$ 6,466,927**	**$ 25,150,788**	**$ 39,541,990**	**$ 6,114,754**	**$ 45,656,744**	**$ 20,184,361**	**$ 3,673,150**	**$ 1,791,411**	**$71,305,666**
Liabilities and equity									
Deposits	16,108,635	411,457	16,520,092	5,268,982	21,789,074	2,914,547	199	7,979,953	32,683,773
Securities sold under repurchase agreements	790,827	-	790,827	-	790,827	-	-	-	790,827
Wholesale borrowings	2,051,515	-	2,051,515	925,000	2,976,515	400,000	1,300,000	(20,046)	4,656,469
Collateralized borrowings	341,780	1,768,992	2,110,772	483,382	2,594,154	3,339,161	2,477,046	(1,908)	8,408,453
Other liabilities	74,503	-	74,503	-	74,503	-	-	1,668,711	1,743,214
Subordinated debentures	73,122	-	73,122	-	73,122	258,077	-	-	331,199
Equity	-	-	-	-	-	-	-	3,279,156	3,279,156
Derivative financial instruments[(1)]	-	-	13,620,700	1,350,000	14,970,700	4,126,875	315,000	-	19,412,575
Total	**$ 19,440,382**	**$ 2,180,449**	**$ 35,241,531**	**$ 8,027,364**	**$ 43,268,895**	**$ 11,038,660**	**$ 4,092,245**	**$ 12,905,866**	**$71,305,666**
Interest-rate-sensitive gap	$ (12,973,455)	$ 22,970,339	$ 4,300,459	$ (1,912,610)	$ 2,387,849	$ 9,145,701	$ (419,095)	$(11,114,455)	
as percentage of assets	(18.2%)	32.2%	6.0%	(2.7%)	3.3%	12.8%	(0.59%)	(15.6%)	

[1] Derivative financial instruments are included in this table at the notional amount.

As at March 31, 2017 *($ in thousands)*	Fixed rate within 3 months	Floating rate within 3 months	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
	Term to maturity/repricing								
Assets									
Cash resources and securities	$ -	$ 6,093,682	$ 6,093,682	$ 40,000	$ 6,133,682	$ -	$ -	$ 263,506	$ 6,397,188
Loans	5,376,600	18,001,517	23,378,117	4,192,082	27,570,199	12,550,805	794,161	(103,943)	40,811,222
Other assets	-	-	-	-	-	-	-	1,338,876	1,338,876
Derivative financial instruments[1]	-	-	6,466,426	1,128,520	7,594,946	6,919,291	2,874,000	-	17,388,237
Total	$ 5,376,600	$ 24,095,199	$ 35,938,225	$ 5,360,602	$ 41,298,827	$ 19,470,096	$ 3,668,161	$ 1,498,439	$ 65,935,523
Liabilities and equity									
Deposits	17,502,111	397,028	17,899,139	4,836,986	22,736,125	4,060,505	361	7,130,769	33,927,760
Securities sold under repurchase agreements	-	-	-	-	-	-	-	-	-
Wholesale borrowings	500,000	-	500,000	500,000	1,000,000	900,000	1,000,000	(7,664)	2,892,336
Collateralized borrowings	101,574	1,341,831	1,443,405	-	1,443,405	3,177,186	2,203,716	(11,647)	6,812,660
Other liabilities	161,539	-	161,539	-	161,539	-	-	1,261,264	1,422,803
Subordinated debentures	58,280	-	58,280	-	58,280	286,161	-	-	344,441
Equity	-	-	-	-	-	-	-	3,147,286	3,147,286
Derivative financial instruments[1]	-	-	12,018,997	818,265	12,837,262	3,810,000	740,975	-	17,388,237
Total	$18,323,504	$ 1,738,859	$ 32,081,360	$ 6,155,251	$ 38,236,611	$ 12,233,852	$ 3,945,052	$ 11,520,008	$ 65,935,523
Interest-rate-sensitive gap	$(12,946,904)	$ 22,356,340	$ 3,856,865	$ (794,649)	$ 3,062,216	$ 7,236,244	$ (276,891)	$(10,021,569)	
as percentage of assets	(19.6%)	33.9%	5.8%	(1.2%)	4.6%	11.0%	(0.42%)	(15.2%)	

[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, 2018	**Within 3 months**	**3–12 months**	**Total within 1 year**	**1–5 years**	**Over 5 years**	**Total**
Total assets	**3.3%**	**2.7%**	**3.2%**	**2.8%**	**2.5%**	**3.0%**
Total liabilities and equity	**1.4%**	**1.3%**	**1.4%**	**1.2%**	**2.3%**	**1.4%**
Interest-rate-sensitive gap	**1.9%**	**1.4%**	**1.8%**	**1.6%**	**0.2%**	**1.6%**

As at March 31, 2017	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
Total assets	2.7%	2.8%	2.7%	2.7%	2.5%	2.7%
Total liabilities and equity	0.9%	1.1%	1.0%	1.1%	2.2%	1.1%
Interest-rate-sensitive gap	1.8%	1.7%	1.7%	1.6%	0.3%	1.6%

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 net income:

As at March 31 *($ in thousands)*	2018	2017
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	**$ 39,371**	$ 41,067
200 basis points	**76,137**	79,812
Decrease in interest rates of:		
100 basis points[(1)]	**(48,732)**	(36,141)
200 basis points[(1)]	**(105,026)**	(33,853)

[1] Certain aspects of the decrease in interest rate scenarios are constrained by interest rate floors when appropriate.

The potential impact of a 100- and 200-basis-point increase is well within our interest rate risk management policy of $74.0 million and $126.9 million, respectively.

Note 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 Investor Services brand name. Under this plan, eligible employees were offered an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATB Investment Management 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 Investor Services (ATBIS) executives]
- 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 ATBIS decreases, that the note holder will lose some or all of the original investment. There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant.

During the year, ATB issued $3.2 million (2017: $2.7 million) of these notes, which are recorded in other liabilities in the Consolidated Statement of Financial Position. During the current year, $2.6 million (2017: $14.8 million) of the notes were redeemed. An expense of $2.1 million (2017: $4.6 million income) was recognized during the year to reflect the decrease in achievement notes outstanding, offset by an increase in the fair value of the notes based on their valuation as at March 31, 2018. As at March 31, 2018, the liability for these notes was $59.2 million (2017: $54.6 million). During the year, $0.8 million (2017: $3.1 million) in distribution payments were accrued for payment to achievement note holders.

Note 25 Capital Management

ATB measures and reports capital adequacy to ensure we meet the minimum levels set out by our regulator, the Alberta Superintendent of Financial Institutions, 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-balance-sheet and off-balance-sheet assets according to the degree of credit risk. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of eligible portions of subordinated debentures and 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 30, 2009, $600,000 of notional capital was made available to ATB. This amount reduces by 25% of net income each quarter. Effective April 1, 2017, software and other intangibles was deducted from total capital.

As at March 31, 2018, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the *Capital Adequacy* guideline.

As at March 31 *($ in thousands)*		2018		2017
Tier 1 capital				
Retained earnings	$	**3,453,844**	$	3,179,285
Tier 2 capital				
Eligible portions of:				
Subordinated debentures		**111,193**		132,395
Wholesale borrowings		**1,420,000**		1,300,000
Collective allowance for loan losses		**201,710**		228,588
Notional capital		**148,977**		217,617
Total Tier 2 capital		**1,881,880**		1,878,600
Deductions from capital				
Software and other intangibles		**292,796**		-
Total capital	$	**5,042,928**	$	5,057,885
Total risk-weighted assets	$	**35,381,827**	$	32,985,934
Risk-weighted capital ratios				
Tier 1 capital ratio		**9.8%**		9.6%
Total capital ratio		**14.3%**		15.3%

Note 26 Shares

ATB's subsidiary, AltaCorp Capital Inc., issues share capital 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:

(in thousands)	Shares		Value
Class A shares			
Balance, as at January 2, 2018	**3,386**	**$**	**4,414**
Shares issued during the year	**-**		**-**
Balance, as at March 31, 2018	**3,386**	**$**	**4,414**

(in thousands)	Shares		Value
Class B shares			
Balance, as at January 2, 2018	**2,574**	**$**	**281**
Shares issued during the year	**-**		**-**
Shares repurchased during the year	**(5)**		**(2)**
Share purchase loan	**-**		**4**
Balance, as at March 31, 2018	**2,569**	**$**	**283**

Note 27 Business Combinations

Significant Acquisitions

On January 2, 2018, ATB acquired 100% of the voting shares of AltaCorp Capital Inc. (AltaCorp), a full-service brokerage firm that provides advisory and institutional financial services. The acquisition, which required no cash consideration, was made possible by AltaCorp repurchasing and extinguishing the remaining outstanding voting shares. Effectively, ATB's total ownership in AltaCorp increased from 29.7% to 56.8% and has been accounted for using the acquisition method.

See note 28 for the operating revenue and net income earned by AltaCorp 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 assets acquired and liabilities assumed on the date of acquisition based on the finalized purchase price allocation, with the fair values measured on observable market inputs, which includes recent market transactions of comparable companies:

As at January 2, 2018 *($ in thousands)*		
Assets acquired		
Cash and cash equivalents	**$**	**3,770**
Securities		**20,332**
Property and equipment		**964**
Other assets		**7,359**
Total assets acquired		**32,425**
Less liabilities assumed		
Other liabilities		**17,085**
Subordinated debt		**10,000**
Non-controlling interest		**2,136**
Total liabilities assumed		**29,221**
Total net assets acquired	**$**	**3,204**

Non-Controlling Interests

The following tables summarizes the information relating to ATB's non-controlling interests (NCI):

As at March 31, 2018 *($ in thousands)*	
NCI percentage	**43.2%**
Net assets	**$ 3,177**
Net assets attributable to NCI	**1,372**
Operating revenue	**15,829**
Net income	**3,177**
Other comprehensive income	**-**
Total comprehensive income	**3,177**
Net income allocated to NCI	**1,372**
Other comprehensive income allocated to NCI	**-**
Cash flows from operating activities	**11**
Cash flows from investing activities	**(14)**
Cash flows from financing activities	**49**
Net increase in cash and cash equivalents	**$ 46**

Note 28 Segmented Information

ATB has organized its operations and activities around the following five areas of expertise that differ in products and services offered:

- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.
- **Corporate Financial Services** provides financial services to mid-sized and large corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.
- **AltaCorp Capital Inc.** provides advisory and institutional financial services, including corporate mergers and acquisitions, equity financings, debt capital markets, acquisitions and divestitures, equity research, sales and trading, market making, and private wealth management.

The strategic service units comprise business units of a corporate nature, such as investment, risk management, and treasury operations, as well as expenses not expressly attributed to any area of expertise.

Basis of Presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements. Since these areas of expertise are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

Net interest income is attributed to each area of expertise according to ATB's internal funds transfer pricing (FTP) system, whereby assets earn net interest income to the extent that external revenues exceed internal FTP expense, and liabilities earn net interest income to the extent that internal FTP revenues exceed external interest expense. Individually assessed provision for loan losses are allocated based on the individual underlying impaired loan balances, and collectively assessed provision are calculated on the total performing loan balances based on ATB's internal credit risk model.

Direct expenses are attributed between areas of expertise as incurred. Certain indirect expenses are allocated between Investor Services and the other areas on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined allocation methods incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under strategic service units.

($ in thousands)	**Retail Financial Services**	**Business and Agriculture**	**Corporate Financial Services**	**Investor Services**	**AltaCorp Capital Inc.**	**Strategic service units**	**Total**
March 31, 2018							
Net interest income (loss)	**$ 455,801**	**$ 314,049**	**$ 329,465**	**$ 702**	**$ (62)**	**$ 22,425**	**$ 1,122,380**
Other income	**87,022**	**78,460**	**74,529**	**194,314**	**15,891**	**10,319**	**460,535**
Total operating revenue	**542,823**	**392,509**	**403,994**	**195,016**	**15,829**	**32,744**	**1,582,915**
Provision for loan losses	**24,211**	**27,093**	**53,702**	**-**	**-**	**-**	**105,006**
Non-interest expenses	**506,289**	**224,709**	**110,613**	**143,631**	**12,064**	**124,393**	**1,121,699**
Income (loss) before payment in lieu of tax	**12,323**	**140,707**	**239,679**	**51,385**	**3,765**	**(91,649)**	**356,210**
Payment in lieu of tax	**-**	**-**	**-**	**11,819**	**588**	**69,244**	**81,651**
Net income (loss)	**$ 12,323**	**$ 140,707**	**$ 239,679**	**$ 39,566**	**$ 3,177**	**$ (160,893)**	**$ 274,559**
Total assets	**$ 22,786,823**	**$ 8,576,908**	**$ 12,680,946**	**$ 168,706**	**$ 10,264**	**$ 7,669,444**	**$ 51,893,091**
Total liabilities	**$ 12,925,048**	**$ 9,320,768**	**$ 9,460,114**	**$ 121,694**	**$ 7,087**	**$ 16,779,224**	**$ 48,613,935**
March 31, 2017							
Net interest income	$ 440,980	$ 287,198	$ 316,105	$ 459	$ -	$ 39,573	$ 1,084,315
Other income (loss)	83,282	64,351	76,197	169,849		(2,783)	390,896
Total operating revenue	524,262	351,549	392,302	170,308	-	36,790	1,475,211
Provision for loan losses	95,458	77,433	62,098	-	-	-	234,989
Non-interest expenses	467,133	210,372	105,640	123,601	-	137,658	1,044,404
(Loss) income before payment in lieu of tax	(38,329)	63,744	224,564	46,707	-	(100,868)	195,818
Payment in lieu of tax	-	-	-	10,743	-	34,295	45,038
Net (loss) income	$ (38,329)	$ 63,744	$ 224,564	$ 35,964	$ -	$ (135,163)	$ 150,780
Total assets	$ 21,899,833	$ 7,809,084	$ 11,076,094	$ 157,954	$ -	$ 7,604,321	$ 48,547,286
Total liabilities	$ 12,844,828	$ 9,396,929	$ 11,015,842	$ 115,509	$ -	$ 12,026,892	$ 45,400,000

Note 29 Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

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ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2018

Auditor General
OF ALBERTA

Independent Auditor's Report

To the Board of Directors of ATB Insurance Advisors Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Insurance Advisors Inc., which comprise the statement of financial position as at March 31, 2018, and the statements of operations and comprehensive income, changes in deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Insurance Advisors Inc. as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 23, 2018
Edmonton, Alberta

ATB Investor Services™

Statement of Financial Position

ATB Insurance Advisors Inc.

As at March 31, 2018 ($ thousands)

	March 31, 2018 $	March 31, 2017 $
ASSETS		
Current assets		
Cash	45	35
Accounts receivable	44	32
	89	67
Non-current assets		
Intangible assets (note 7)	161	175
	250	242
LIABILITIES		
Current liabilities		
Accrued liabilities	35	41
Lapse provision	40	40
Incentive compensation payable (note 12)	8	5
Due to affiliates (note 5)	17	24
Due to ATB (note 6(i))	4,868	5,048
	4,968	5,158
Long-term liabilities		
Accrued liabilities	5	30
Lapse provision	14	13
	4,987	5,201
SHAREHOLDERS' DEFICIENCY		
Share capital (note 8)	5	5
Deficit	(4,742)	(4,964)
	(4,737)	(4,959)
	250	242

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™

Statement of Changes in Deficiency

ATB Insurance Advisors Inc.

For the year ended March 31, 2018 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Deficit $	Shareholders' Deficiency $
Balance at March 31, 2016	100	5	(5,081)	(5,076)
Net income and comprehensive income	-	-	117	117
Balance at March 31, 2017	100	5	(4,964)	(4,959)
Balance at March 31, 2017	100	5	(4,964)	(4,959)
Net income and comprehensive income	-	-	222	222
Balance at March 31, 2018	100	5	(4,742)	(4,737)

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

ATB Investor Services™

Statement of Operations and Comprehensive Income

ATB Insurance Advisors Inc.

For the year ended March 31, 2018 ($ thousands)

	March 31, 2018	March 31, 2017
Revenue	$	$
Insurance commissions	865	740
Administration and selling expenses (note 11)		
Banking and interest charges	150	137
Salaries and employee benefits (note 12)	108	132
Referral fees paid to affiliates and ATB	86	99
General and administrative expenses	76	91
Amortization expense (note 7)	19	13
Incentive compensation expenses (note 12)	8	4
Professional fees	2	4
IT Infrastructure and services	2	-
Commission expenses	-	10
	451	490
Other expenses		
Intercorporate management fees (notes 10 and 11)	126	98
Net income before payment in lieu of tax	288	152
Payment in lieu of tax (PILOT) (note 6(ii))	66	35
Net income and comprehensive income	222	117

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

ATB Investor Services™

Statement of Cash Flows
ATB Insurance Advisors Inc.
For the year ended March 31, 2018 ($ thousands)

Cash provided by (used in)	March 31, 2018 $	March 31, 2017 $
Operating activities		
Net income	222	117
Items not affecting cash		
Amortization expense	19	13
Net operating activities	241	130
Net change in non-cash working capital items		
Accounts receivable	(12)	40
Accrued liabilities	(31)	59
Lapse provision	1	(18)
Incentive compensation payable	3	(3)
Due to affiliates	(7)	8
PILOT payable	7	9
Change in non-cash working capital items	(39)	95
Net cash from operating activities	202	225
Investing activities		
Intangible assets	(5)	(143)
Net cash used in investing activities	(5)	(143)
Financing activities		
Due to ATB	(187)	(79)
Net cash used in financing activities	(187)	(79)
Net change in cash	10	3
Cash at beginning of period	35	32
Cash at end of period	45	35
Supplementary information		
Interest paid	150	137
PILOT paid	59	26

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

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ 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”) and ATB Securities Inc. (“ATBSI”). ATBIA, ATBIM, and ATBSI operate under the trademark ATB Investor Services (“ATBIS”). ATBIA was established to provide personal insurance products including, but not limited to, life insurance, disability insurance, critical illness insurance and annuities. 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 6(ii).

The continuing operations of ATBIA are dependent upon ATB’s ongoing financial support.

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.

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 23, 2018.

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 accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2018.

ATBIA’s financial statements are presented in Canadian dollars, 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 income.

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:

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

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 are revised accordingly, actual lives may differ from the estimates.

ii) Provision for 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 a policy lapses. The provision for lapse is estimated using historical internal lapse rates.

During the year ended March 31, 2018, management provided an allowance for lapsed insurance policies of $54 (March 31, 2017 - $53) representing 3.02% to 7.74% (depending on the policy) of total insurance commissions earned during the year (March 31, 2017 - 2.16% to 5.99%). This provision is recorded as a reduction to insurance commission revenue and is presented as lapse provision in the statement of financial position. The current portion of lapse provision represents the provision for insurance policies expected to lapse in the next fiscal year.

c. Cash

Cash consists of cash on deposit held with ATB.

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.

e. Impairment of Intangible Asset

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.

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 current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment 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, 2018 (March 31, 2017 - $nil).

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIA; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

g. Revenue Recognition

ATBIA earns insurance commissions from selling insurance products to customers. Insurance commissions are recorded as revenue at the time the customer enters into a policy contract with an insurance provider represented by ATBIA. Insurance commissions earned from insurance providers are split between ATBIA, the MGA and the ATBIA Advisors as specified in the contracts between ATBIA and the ATBIA Advisors, and between ATBIA and the MGA. Only the commissions earned by ATBIA are recorded as insurance commissions revenue.

Commission agreements with insurance providers may include a chargeback clause that provides the right for the insurance provider to charge back a proportion of commission received by ATBIA if the policy lapses within a specified period. The chargeback period generally expires in two years. As a result, a provision is recorded against a portion of the insurance commission revenue until the chargeback period expires. The provision is estimated with reference to ATBIA's actual lapsing experience. The provision is recorded as lapse provision in the statement of financial position. The current portion of the lapse provision represents the provision for insurance policies expected to lapse within 1 year.

h. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. 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. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

i. Employee Future Benefits

ATBIA provides future benefits to employees through the following plans:

i) Defined Contribution Plan

ATBIA provides its employees with a registered defined contribution pension plan. Contributions to the plan are expensed as salaries and incentives 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) 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.

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

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. Variable compensation plan payable at the end of the year is recorded in incentive 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 11) with a value linked to the fair market value of certain ATB subsidiaries. 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.

k. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIA becomes a party to the contractual provisions of the instrument.

ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. ATBIA derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value, and are subsequently accounted for based on one of five classifications:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity;
- Investments and available-for-sale financial assets; and
- Other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets - Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. ATBIA has classified cash and accounts receivable as loans and receivables.

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

Impairment

At the end of each reporting period, ATBIA assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the 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.

Other Financial Liabilities

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, incentive compensation payable, due to affiliates, and due to ATB are classified as other financial liabilities.

I. Financial Instruments – Estimated 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 their carrying value. These items include cash, accounts receivable, accrued liabilities, incentive compensation payable, due to affiliates and due to ATB. These items are classified as level 2 in the fair value hierarchy as 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, 2018 and 2017.

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

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.

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. ATBIA does not hold financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Interest rate risk: ATBIA is subject to interest rate cash flow risk as the amount that is due to ATB (note 6(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIA does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2018, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT (note 6(ii)), would be approximately $48 (March 31, 2017 - $50).

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 the counterparty to a financial asset will default resulting in a financial loss to ATBIA. ATBIA is exposed to credit risk primarily through its cash and accounts receivable balances.

The Company has deposited cash with its parent company, ATB, an Alberta Crown Agent, from which management believes the risk of loss is remote.

Accounts receivable are primarily composed of insurance commissions receivable from large and reputable insurance companies from whom the risk of loss is deemed to be insignificant.

Management has not provided an allowance for doubtful accounts on accounts receivable as the Company has historically no collection losses on amounts owing from insurance companies and believes collectibility is reasonably assured (2017 - $nil).

The Company's maximum credit exposure is $89 (March 31, 2017 - $67) which is the sum of cash and accounts receivable.

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ 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 (note 13) 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.

4. Accounting Changes

Amended Accounting Standards Adopted

IAS 7 *Statement of Cash Flows*

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows,* which are effective for annual periods beginning on or after January 1, 2017. These amendments are intended to provide more information over the entity's financing activities. The update also requires additional disclosure over the changes in liabilities arising from financing activities. These amendments did not have a material impact on the Company's financial statements.

New Accounting Standards Not Yet Adopted

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and Measurement
IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories which determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected.

Impairment
IFRS 9 introduces a new impairment model based on expected credit losses. The model will apply to all financial assets, which includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees with the most significant impact to loans. Financial assets classified or designated at fair value through profit or loss will be excluded from the new impairment model.

ATBIA is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer; so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBIA is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

In January 2016, the IASB issued a new standard that will result in almost all leases being recognized on the statement of financial position. Under the new standard, an asset (the right to use a leased item) and a financial liability to make lease payments are recognized, with the only exceptions being short-term and low-value leases.

ATBIA is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2019.

5. Due to Affiliates

In the normal course of operations ATBIA pays referral fees and intercorporate management fees to ATBSI. Alternatively, ATBIA may pay for certain expenses on behalf of ATBIM and ATBSI. These amounts are duly recorded as receivables or payables in each of ATBIM's and ATBSI's accounts. 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, 2018	March 31, 2017
	$	$
Due to ATBSI	17	24

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

6. Due to ATB

i) Amounts 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 operations. ATBIA is reliant on ATB not calling these advances.

The amounts due to ATB arising from these transactions are as follows:

	March 31, 2018	March 31, 2017
	$	$
Due to ATB	4,868	5,048

The net amount due to ATB, less PILOT (note 6(ii)), is subject to monthly interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2018 was 3.45% (March 31, 2017 - 2.70%).

ii) Payment in Lieu of Tax (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 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.

For the year ended March 31, 2018, ATBIA accrued and incurred an expense of $66 (March 31, 2017 - $35) for PILOT. If ATBIA incurs a net loss at year end, the recovery will be offset against the amounts that are due to ATB (note 6(i)). The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2018.

Financial Information

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

7. Intangible Assets

Intangible assets consist exclusively of purchases of insurance advisors' businesses who have ended their relationship with ATBIA.

	Intangible Assets $
Cost	
Balance at April 1, 2016	50
Additions	143
Balance at March 31, 2017	193
Balance at April 1, 2017	193
Additions	5
Balance at March 31, 2018	198
Depreciation	
Balance at April 1, 2016	5
Amortization for the year	13
Balance at March 31, 2017	18
Balance at April 1, 2017	18
Amortization for the year	19
Balance at March 31, 2018	37
Carrying Amounts	
Balance at March 31, 2017	175
Balance at March 31, 2018	161

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2018 was $19 (March 31, 2017 - $13). There were no impairments recognized during the year ended March 31, 2018 (March 31, 2017 - $nil).

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ 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:($ in thousands)

	March 31, 2018	March 31, 2017
Class A common shares #	100	100
Share capital $	5	5

9. Capital Risk Management and Restrictions

ATBIA's objectives in managing its capital, which is defined as shareholders' equity, 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 and cumulative basis.

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.

10. Intercorporate Management Fees

An intercorporate management fee ("management fee") was implemented in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

11. Related Party Transactions

In the normal course of operations, ATBIA pays referral fees to ATBSI. ATB also charges ATBIA for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)).

A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2018 $	March 31, 2017 $
	Administrative and selling and other expenses			
ATBSI	Account administration fees	Salaries and employee benefits	1	1
ATBSI	Referral fees	Referral fees paid to affiliates and ATB	82	74
ATBSI	Management fees	Intercorporate management fees	126	98
ATB	Referral fees	Referral fees paid to affiliates and ATB	4	25
ATB	Interest expense and standby charges	Banking and interest charges	150	137
ATB	Rent	General and administrative expenses	39	39
			402	**374**

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2017 (for the year ended March 31, 2018) and April 1, 2016 (for the year ended March 31, 2017).

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.

Key management are compensated through ATBSI, and therefore there is no key management compensation recorded in these financial statements. The key management compensation is captured in the management fee charged by ATBSI.

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 Investor Services 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.

ATB Insurance Advisors Inc.
Notes to Financial Statements
For the year ended March 31, 2018 ($ thousands)

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 ATBIS 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 the risk, if the ATBIS 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 ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2018 the liability recorded by ATB with regards to the Achievement Notes owned by employees of ATBIA is $367 (March 31, 2017 - $315). The $52 (March 31, 2017 - $464) change in the liability from the prior year is a result $8 (March 31, 2017 - $nil) in new subscriptions, of $nil (March 31, 2017 - $521) in Achievement Notes redeemed during the year and an increase of $44 (March 31, 2017 - $57) due to appreciation and vesting of the Achievement Notes.

12. Employee Future 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, RRSP, RESP, or ATB mortgage. For the year ended March 31, 2018, expenses related to the plan, which are recorded in salaries and employee benefits, were $9 (March 31, 2017 - $12).

ii) Incentive Compensation Plan

As at March 31, 2018, the Company had accrued and expensed $8 (March 31, 2017 - $5) for its variable compensation plan related to the achievement of goals and performance targets.

13. Credit Facility

ATBIA has access to a $50 (March 31, 2017 - $50) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 3.20% at March 31, 2018 (March 31, 2017 – 2.45%). No amounts have been drawn on the facility at March 31, 2018 (March 31, 2017 - $nil). A standby fee of 0.25% is calculated daily on the undrawn portion and remitted to ATB quarterly, the expense for which is recorded in banking and interest charges.

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ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2018

Auditor General OF ALBERTA

Independent Auditor’s Report

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Investment Management Inc., which comprise the statements of financial position as at March 31, 2018 and 2017 and the statements of operations and comprehensive income, changes in equity and cash flows for the years ended March 31, 2018 and 2017, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, based on 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Investment Management Inc. as at March 31, 2018 and 2017, and its financial performance and its cash flows for the years ended March 31, 2018 and 2017 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 of accounting and restriction on distribution and use

Without modifying my opinion, I draw attention to note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ATB Investment Management Inc. to meet the requirements of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. As a result, the financial statements may not be suitable for another purpose. My report is intended solely for the Board of Directors of ATB Investment Management Inc. and the Alberta Securities Commission and should not be distributed to or used by parties other than the Board of Directors of ATB Investment Management Inc. or the Alberta Securities Commission.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 23, 2018
Edmonton, Alberta

ATB Investor Services™

Statement of Financial Position

ATB Investment Management Inc.
As at March 31, 2018 ($ thousands)

	March 31, 2018 $	March 31, 2017 $
ASSETS		
Current assets		
Cash	18,958	13,979
Due from related parties (note 5)	11,707	11,043
Client fees receivable	4,065	3,474
Accounts receivable	2,294	1,863
Securities owned (note 15)	22	664
Prepaid expenses	357	338
	37,403	31,361
Non-current assets		
Software and computer equipment (note 8)	1,419	871
	38,822	32,232
LIABILITIES		
Current liabilities		
Accrued liabilities	7,808	7,061
Incentive compensation payable (note 13)	762	388
Commissions payable	633	522
Due to affiliates (note 6)	1,116	689
Due to ATB (note 7(i))	8,362	7,559
	18,681	16,219
Long-term liabilities		
Long-term incentive compensation payable (note 13)	66	67
	18,747	16,286
SHAREHOLDERS' EQUITY		
Share capital (note 9)	5	5
Retained earnings	20,070	15,941
	20,075	15,946
	38,822	32,232

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™

Statement of Changes in Equity
ATB Investment Management Inc.
For the year ended March 31, 2018 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholders' Equity $
Balance at March 31, 2016	100	5	9,303	9,308
Dividends		-	(17,000)	(17,000)
Net income and comprehensive income		-	23,638	23,638
Balance at March 31, 2017	100	5	15,941	15,946
Balance at March 31, 2017	100	5	15,941	15,946
Dividends		-	(23,000)	(23,000)
Net income and comprehensive income		-	27,129	27,129
Balance at March 31, 2018	100	5	20,070	20,075

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

ATB Investor Services™

Statement of Operations and Comprehensive Income

ATB Investment Management Inc.

For the year ended March 31, 2018 ($ thousands)

	March 31, 2018	March 31, 2017
Revenue (note 12)	**$**	**$**
Fund management fees	134,226	121,474
Fee based revenue	16,824	14,327
Interest revenue	314	135
Other revenue	127	127
Securities commissions	96	92
	151,587	136,155
Administration and selling expenses (note 12)		
Trailing commissions expense	61,464	59,866
Third party fund manager fees	25,770	22,035
Salaries and employee benefits (note 13)	5,198	4,300
Professional fees	3,946	3,643
Commission expenses	2,886	2,428
General and administrative expenses	1,533	1,211
Incentive compensation expenses (note 13)	1,093	638
IT infrastructure and services	785	634
Amortization and depreciation expense (note 8)	326	405
Clearing and processing	212	147
Banking and interest charges	15	13
	103,228	95,320
Other expenses		
Intercorporate management fees (notes 11 and 12)	13,126	10,136
Net income before payment in lieu of tax	35,233	30,699
Payment in lieu of tax (PILOT) (note 7(ii))	8,104	7,061
Net income and comprehensive income	27,129	23,638

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

ATB Investor Services™

Statement of Cash Flows
ATB Investment Management Inc.
For the year ended March 31, 2018 ($ thousands)

Cash provided by (used in)	March 31, 2018 $	March 31, 2017 $
Operating activities		
Net income	27,129	23,638
Items not affecting cash		
Amortization and depreciation expense	326	405
Net operating activities	27,455	24,043
Net change in non-cash working capital items		
Accounts receivable	(431)	(351)
Due from related parties	(664)	(1,398)
Client fees receivable	(591)	(469)
Prepaid expenses	(19)	(12)
Accrued liabilities	747	861
Incentive compensation payable	373	(37)
Commissions payable	111	2
Due to affiliates	426	(696)
PILOT payable	1,043	742
Change in non-cash working capital items	995	(1,358)
Net cash from operating activities	28,450	22,685
Investing activities		
Securities	643	(664)
Software and computer equipment	(874)	(16)
Net cash used in investing activities	(231)	(680)
Financing activities		
Dividends	(23,000)	(17,000)
Due to ATB	(240)	451
Net cash used in financing activities	(23,240)	(16,549)
Net change in cash	4,979	5,456
Cash at beginning of period	13,979	8,523
Cash at end of period	18,958	13,979
Supplementary information		
Interest paid	15	13
Interest received	314	135
PILOT paid	7,061	6,318

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

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ 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") and ATB Insurance Advisors Inc. ("ATBIA"). ATBIM, ATBSI, and ATBIA operate under the trademark ATB Investor Services ("ATBIS"). ATBIM was established to facilitate managing a family of mutual fund portfolios and providing 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 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 7(ii).

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 23, 2018.

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 CPA Canada Handbook.

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified in IAS 27 - *Separate Financial Statements*. Accordingly, readers are cautioned that these financial statements may not be appropriate for other purposes.

The Company has no investments in subsidiaries, jointly controlled entities, or associates as at March 31, 2018 and 2017.

ATBIM's financial statements are presented in Canadian dollars, 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 income.

b. Critical Accounting Judgements and Estimate

he 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:

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

i) Depreciation and Amortization Methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. 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 calculations are revised accordingly, actual lives may differ from the estimates.

ii) Estimates for Valuing Incentive Compensation Payable

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 that change the amount of the award. These assumptions for this valuation 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 economic life. No depreciation is calculated on assets under development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are 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 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 5 years.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

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, 2018 or 2017.

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.

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 current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment 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, 2018 (March 31, 2017 - $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 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. Revenue Recognition

Fund management fees are based either on the net asset values of the ATBIS Funds or the net asset values of non-ATBIS Funds that may be held by clients, and are recognized on an accrual basis. Fee based revenue includes fees earned from clients for management of their investment assets and is recorded on an accrual basis. Securities commissions are earned on certain trades and are recognized on a trade-date basis. Interest revenue and other revenue are recorded on an accrual basis.

j. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. 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 revenue in the statement of operations and comprehensive income.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

k. Employee Future Benefits

ATBIM provides future 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 salaries and incentives 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) 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. Variable compensation plan payable at the end of the year is recorded in incentive compensation payable.

iii) 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 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. Following the guidance in IAS 19 *(revised) – Employee Benefits*, the liability for LTIP is recorded at the present value ("PV") of the grants that have vested as of the year-end 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 compensation payable, and the related expense is included in incentive compensation expenses.

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 12) with a value linked to the fair market value of certain ATB subsidiaries, including ATBIM. 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.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

m. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIM becomes a party to the contractual provisions of the instrument.

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 on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIM derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value, and are subsequently accounted for based on one of five classifications:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity;
- Investments and available-for-sale financial assets; and
- Other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i) Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are financial assets held-for-trading.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and comprehensive income and are reported as other revenue or other expenses. Interest income and expense on financial assets held-for-trading are included in interest revenue or interest expense. ATBIM has classified securities owned as held-for-trading.

ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. ATBIM has classified cash, due from related parties, client fees receivable and accounts receivable as loans and receivables.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

Impairment

At the end of each reporting period, ATBIM assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the 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.

Other Financial Liabilities

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, incentive compensation payable, commissions payable, due to affiliates, and due to ATB are classified as other financial liabilities.

n. Financial Instruments – Estimated 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 their carrying value. These items include cash, due from related parties, client fees receivable, accounts receivable, accrued liabilities, commissions payable, due to affiliates, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Securities owned and the liability for LTIP are carried at fair value. See note 3 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.

The fair value of securities owned is $22 as at March 31, 2018 (March 31, 2017 - $664). Securities owned are classified as level 1 under the fair value hierarchy.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

The fair value of the LTIP component of incentive compensation payable amounting to $123 (March 31, 2017 - $124) 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 3.7% per annum (March 31, 2017 - 10%). 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, 2018	March 31, 2017
	$	$
Fair value as at beginning of year	124	173
Vesting of previous and current awards	70	65
Changes in estimates	(13)	(6)
Settled	(58)	(108)
Fair value as at end of year	**123**	**124**

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.

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 any significant currency risk.

Interest rate risk: ATBIM is subject to interest rate cash flow risk as the amount that is due to ATB (note 7(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM is 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.

As at March 31, 2018, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 7(i)), excluding PILOT (note 7(ii)), would be approximately $3 (March 31, 2017 - $5).

Price risk: ATBIM is exposed to price risk through its securities owned, as the fair value of these securities will fluctuate as a result of changes in market prices. Securities owned of $22 (March 31, 2017 - $664) consists of seed capital invested for the ATBIS Pooled Series of mutual funds (note 15). Management deems the price risk related to this investment to be insignificant.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

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 accounts receivable balances.

The Company has deposited cash with its parent company, ATB, an Alberta Crown Agent, from which management believes the risk of loss is remote.

The Company's exposure to credit risk is limited to its due from related parties, client fees receivable and accounts receivable balances. At March 31, 2018, ATBIM recorded $11,707 (March 31, 2017 - $11,043) due from related parties from which management believes the risk of loss to be insignificant.

The credit risk inherent in ATBIM's remaining accounts receivable and client fees receivable balances of $6,359 (March 31, 2017 - $5,337) is effectively mitigated by the Company's diverse customer base. Client fees receivable relate to fee based revenue, while accounts receivable primarily relate to fund management fees that are also collected from clients. Management deems the risk from customer accounts to be insignificant as fees from clients are received directly from client portfolios and historically ATBIM has not had credit losses on these balances. Management has not provided an allowance for doubtful accounts on these balances as it believes collectibility is reasonably assured (2017 - $nil).

The Company's maximum credit exposure is $37,024 (March 31, 2017 - $30,359), which is the sum of its cash, due from related parties, client fees receivable, and accounts receivable 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 determining whether additional funding is required through its credit facility (note 14) or parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk that are considered short-term, include accrued liabilities, incentive compensation payable, commissions payable, due to affiliates, and due to ATB.

4. Accounting Changes

Amended Accounting Standards Adopted

IAS 7 *Statement of Cash Flows*

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows,* which are effective for annual periods beginning on or after January 1, 2017. These amendments are intended to provide more information over the entity's financing activities. The update also requires additional disclosure over the changes in liabilities arising from financing activities. These amendments did not have a material impact on the Company's financial statements.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

New Accounting Standards Not Yet Adopted

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, that will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and Measurement
IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories which determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected.

Impairment
IFRS 9 introduces a new impairment model based on expected credit losses. The model will apply to all financial assets, which includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees, with the most significant impact to loans. Financial assets classified or designated at fair value through profit or loss will be excluded from the new impairment model.

ATBIM is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBIM is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

In January 2016, the IASB issued a new standard that will result in almost all leases being recognized on the statement of financial position. Under the new standard, an asset (the right to use a leased item) and a financial liability to make lease payments are recognized, with the only exceptions being short-term and low-value leases.

ATBIM is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2019.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

5. Due from Related Parties

In the normal course of operations, ATBIM receives fund management fees from ATBIS Funds. ATBIM also pays certain expenses on behalf of ATBIS Funds, for which it subsequently receives payment. 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 management fees and/or absorb expenses on behalf of the ATBIS Pooled Fund Series of mutual funds. During the year ended March 31, 2018, the Company absorbed $552 of administration and selling expenses (March 31, 2017 - $295). This expense is recorded in general and administrative expenses. The Company expects this absorption of expenses will decline as the net assets of the ATBIS Pooled Fund Series of mutual funds grow over time. Such waivers and absorptions can be terminated at any time without notice

	March 31, 2018	March 31, 2017
	$	$
Due from ATBIS Funds	11,707	11,043

6. Due to Affiliates

In the normal course of operations, ATBIM pays trailing commissions and intercorporate management fees to ATBSI. ATBSI collects client fees on behalf of ATBIM. ATBSI and ATBIA may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBSI and ATBIA. The amounts 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, 2018	March 31, 2017
	$	$
Due to ATBSI	1,116	689

7. Due to ATB

i) Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBIM. The amounts due to ATB are generally settled in the following month.

The amounts due to ATB arising from these transactions are as follows:

	March 31, 2018	March 31, 2017
	$	$
Due to ATB	8,362	7,559

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

The net amount due to ATB, less PILOT (note 7(ii)), is subject to monthly interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2018 was 3.45% (March 31, 2017 - 2.70%).

ii) Payment in Lieu of Tax (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 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.

For the year ended March 31, 2018, ATBIM accrued and incurred an expense of $8,104 (March 31, 2017 - $7,061) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2018.

8. Software and Computer Equipment

	Computer equipment	Computer equipment under development	Software	Software under development	Total
	$	$	$	$	$
Cost					
Balance at April 1, 2016	-	-	5,714	-	5,714
Additions	-	2	-	14	16
Balance at March 31, 2017	-	2	5,714	14	5,730
Balance at April 1, 2017	-	2	5,714	14	5,730
Additions	64	62	826	812	1,764
Transfer to completed asset	-	(64)	-	(826)	(890)
Balance at March 31, 2018	64	-	6,540	-	6,604
Accumulated Amortization					
Balance at April 1, 2016	-	-	4,454	-	4,454
Amortization for the year	-	-	405	-	405
Balance at March 31, 2017	-	-	4,859	-	4,859
Balance at April 1, 2017	-	-	4,859	-	4,859
Amortization for the year	-	-	326	-	326
Balance at March 31, 2018	-	-	5,185	-	5,185
Carrying Amounts					
Balance at March 31, 2017	-	2	855	14	871
Balance at March 31, 2018	64	-	1,355	-	1,419

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2018 was $326 (March 31, 2017 - $405). There were no retirements or impairments recognized during the year ended March 31, 2018 (March 31, 2017 - $nil). Computer equipment was not put into use until the end of the current fiscal year and therefore will be amortized starting in the next fiscal year.

9. 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: ($ in thousands)

	March 31, 2018	March 31, 2017
Class A common shares #	100	100
Share capital $	5	5

10. Capital Risk Management and Restrictions

ATBIM's objectives in managing its capital, which is defined as shareholders' 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 has 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. 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 ATBIM on a monthly and cumulative 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.

11. Intercorporate Management Fees

An intercorporate management fee ("management fee") was implemented in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA 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, 2018 ($ thousands)

12. Related Party Transactions

In the normal course of operations, ATB charges ATBIM for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 7(i)). In addition, ATBSI charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATBSI charges trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM.

A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2018 $	March 31, 2017 $
	Revenue			
ATBIS Funds	Investment management fees	Fund management fees	126,388	115,388
ATB	Interest revenue	Interest revenue	314	135
ATB	GIC referral fees	Other revenue	116	60
			126,818	**115,583**
	Administrative and selling and other expenses			
ATBIS Funds	Fund expenses absorbed	General and administrative expenses	552	295
ATBSI	Trailer fees	Trailing commissions expense	61,346	59,779
ATBSI	Account administration fees	Salaries and employee benefits	15	14
ATBSI	Client referral fees	Professional fees	3,422	2,961
ATBSI	Management fees	Intercorporate management fees	13,126	10,136
ATB	Wire transfer cost	Professional fees	2	2
ATB	Interest expense and standby fees	Banking and interest charges	15	13
ATB	Rent	General and administrative expenses	195	174
			78,673	**73,374**

The fund management fees above do not include fees that are directly paid by clients.

The transactions with ATB and ATBSI listed above were subject to annual service level agreements (and amendments) made effective April 1, 2017 (for the year ended March 31, 2018) and April 1, 2016 (for the year ended March 31, 2017).

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.

Financial Information

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

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.

The compensation for key management personnel is primarily charged by ATBSI to the Company as part of the management fee allocation (note 11).

The table below outlines the amounts that are not captured in the management fee and are incurred by the Company.

	March 31, 2018	March 31, 2017
	$	$
Short-term employee benefits	783	718
Deferred compensation	74	53
Retirement and post employment benefits	81	73
	938	**844**

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 Investor Services 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.

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 ATBIS 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 the risk, if the ATBIS 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 ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2018 the liability recorded by ATB with regards to the Achievement Notes owned by the employees of ATBIM is $6,214 (March 31, 2017 - $4,845). The $1,369 (March 31, 2017 - $1,515) change in the liability from the prior year is a result of $526 (March 31, 2017 - $208) in new subscriptions, $16 (March 31, 2017 - $2,597) in Achievement Notes redeemed during the year and an increase of $859 (March 31, 2017 - $874) due to appreciation and vesting of the Achievement Notes.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

13. Employee Future Benefits

i) Defined Contribution Plan

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, RRSP, RESP, or ATB mortgage. For the year ended March 31, 2018, expenses related to the plan, which are recorded in salaries and employee benefits, were $647 (March 31, 2017 - $602).

ii) Incentive Compensation Plans

As at March 31, 2018, the Company had accrued and expensed $705 (March 31, 2017 - $331) for variable compensation plans related to the achievement of goals and performance targets (note 2) k) ii)).

For LTIP (note 2) k) iii)), amounts as at March 31, 2018 are as follows:

Fiscal Year Issued	LTIP Grants Issued	Allowance for Early Termination	Vested	PV of the Grants Vested
	$	$	$	$
2016	57	-	57	57
2017	68	3	43	41
2018	83	4	26	25
Total	**208**	**7**	**126**	**123**

The value presented for LTIP grants issued includes the appreciation and depreciation of those awards. Of the $123 (March 31, 2017 - $124) present value of the obligation that has vested, $57 (March 31, 2017 - $57) is included in the current portion of the incentive compensation payable and $66 (March 31, 2017 - $67) is included in the long-term portion. The related expense of $78 (March 31, 2017 - $76) is recorded in incentive compensation expenses.

14. Credit Facility

ATBIM has access to a $5,000 (March 31, 2017 - $5,000) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 3.20% at March 31, 2018 (March 31, 2017 - 2.45%). No amounts have been drawn on the facility at March 31, 2018 (March 31, 2017 - $nil). A standby fee of $12 (March 31, 2017 - $12) was paid during the year on the undrawn portion and is included in banking and interest charges.

15. ATBIS Pooled Fund Series Seed Capital

These mutual funds were created in order to accommodate high net worth clients that were seeking a more specialized offering. In 2016, the Company provided seed capital of $630 in order to establish the mutual funds. In 2017, the Company recovered $610 of the seed capital that it provided to establish these mutual funds through a sale of the underlying securities.

16. Comparative Figures

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

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ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2018

Auditor General
OF ALBERTA

Independent Auditor's Report

To the Board of Directors of ATB Securities Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Securities Inc., which comprise the statement of financial position as at March 31, 2018, and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Securities Inc. as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 23, 2018
Edmonton, Alberta

ATB Investor Services™

Statement of Financial Position
ATB Securities Inc.
As at March 31, 2018 ($ thousands)

	March 31, 2018 $	March 31, 2017 $
ASSETS		
Current assets		
Cash	-	4,185
Short-term investments	47,931	37,968
Clients' cash held in trust	26,538	26,316
Due from clients	17,296	22,336
Due from brokers and dealers	18,902	15,568
Client fees receivable	8,155	5,389
Trailer fees receivable	461	545
Due from affiliates (note 5)	1,133	713
Due from advisors (note 12)	574	238
Miscellaneous receivables	223	31
Prepaid expenses	815	476
	122,028	113,765
Non-current assets		
Software and computer equipment (note 7)	10,757	11,257
Due from advisors (note 12)	534	681
Deferred employee benefits (note 12)	117	155
	11,408	12,093
	133,436	125,858
LIABILITIES		
Current liabilities		
Bank overdraft	2,989	-
Due to clients	44,310	38,768
Due to brokers and dealers	28,726	36,072
Accrued liabilities	6,439	5,332
Commissions payable	8,592	7,630
Incentive compensation payable (note 12)	4,711	2,374
Due to ATB (note 6(i))	5,334	3,829
	101,101	94,005
Long-term liabilities		
Long-term incentive compensation payable (note 12)	661	395
	101,762	94,400
SHAREHOLDERS' EQUITY		
Share capital (note 8)	26,391	26,391
Retained earnings	5,283	5,067
	31,674	31,458
	133,436	125,858

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

Financial Information

ATB Investor Services™

Statement of Changes in Equity

ATB Securities Inc.

For the year ended March 31, 2018 ($ and # in thousands)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholders' Equity $
Balance at March 31, 2016	78,995	26,391	5,939	32,330
Dividends	-	-	(13,000)	(13,000)
Net income and comprehensive income	-	-	12,128	12,128
Balance at March 31, 2017	78,995	26,391	5,067	31,458
Balance at March 31, 2017	78,995	26,391	5,067	31,458
Dividends	-	-	(12,000)	(12,000)
Net income and comprehensive income	-	-	12,216	12,216
Balance at March 31, 2018	78,995	26,391	5,283	31,674

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

ATB Investor Services™

Statement of Operations and Comprehensive Income

ATB Securities Inc.

For the year ended March 31, 2018 ($ thousands)

	March 31, 2018	March 31, 2017
Revenue (note 11)	**$**	**$**
Mutual fund commissions	67,270	66,642
Fee based revenue	29,599	19,482
Client referral fees	3,504	3,035
GIC commissions	3,249	3,059
Client account fees	2,348	2,958
Securities commissions	615	460
Other revenue	435	268
Interest revenue	389	324
	107,409	96,228
Administration and selling expenses (note 11)		
Commission expenses	45,197	40,322
Salaries and employee benefits (note 12)	26,595	25,554
General and administrative expenses	10,131	7,811
IT infrastructure and services	6,092	4,557
Incentive compensation expenses (note 12)	5,457	3,247
Professional fees	5,146	4,160
Amortization and depreciation expense (note 7)	4,059	3,127
Clearing and processing	2,080	1,894
Banking and interest charges	39	39
	104,796	90,711
Other income		
Intercorporate management fees (notes 10 and 11)	13,252	10,234
Net income before payment in lieu of tax	15,865	15,751
Payment in lieu of tax (PILOT) (note 6(ii))	3,649	3,623
Net income and comprehensive income	12,216	12,128

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

Financial Information

ATB Investor Services™

Statement of Cash Flows
ATB Securities Inc.
For the year ended March 31, 2018 ($ thousands)

Cash provided by (used in)	March 31, 2018 $	March 31, 2017 $
Operating activities		
Net income	12,216	12,128
Items not affecting cash		
Amortization and depreciation expense	4,059	3,127
Loss on retirement of software assets	120	-
Net operating activities	16,395	15,255
Net change in non-cash working capital items		
Cash from (paid to) clients and brokers/dealers	(320)	454
Client fees receivable	(2,766)	(1,413)
Trailer fees receivable	84	60
Due from affiliates	(420)	687
Due from advisors	(151)	219
Miscellaneous receivables	(192)	131
Prepaid expenses	(339)	(78)
Accrued liabilities	1,107	363
Commissions payable	962	1,279
Incentive compensation payable	2,603	(439)
PILOT payable	26	588
Change in non-cash working capital items	594	1,851
Net cash from operating activities	16,989	17,106
Investing activities		
Securities	(9,963)	4,008
Software and computer equipment	(3,679)	(4,336)
Net cash used in from investing activities	(13,642)	(328)
Financing activities		
Dividends	(12,000)	(13,000)
Due to ATB	1,479	(398)
Net cash used in financing activities	(10,521)	(13,398)
Net change in cash	(7,174)	3,380
Cash at beginning of period	4,185	805
(Bank overdraft) Cash at end of period	(2,989)	4,185
Supplementary information		
Interest paid	39	39
Interest received	389	324
PILOT paid	3,623	3,034

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, 2018 ($ 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”) and ATB Insurance Advisors Inc. (“ATBIA”). ATBSI, ATBIM, and ATBIA operate under the trademark ATB Investor Services (“ATBIS”). 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 6(ii).

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 23, 2018.

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 accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2018.

ATBSI’s financial statements are presented in Canadian dollars, ATBSI’s functional currency. All references to $ are in Canadian dollars and references to US$ are to 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 income.

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 and software are depreciated and amortized over their estimated useful lives. 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 calculations are revised accordingly, actual lives may differ from the estimates.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

ii) Estimates for Valuing Certain Assets and Liabilities of ATBSI

ATBSI's loans to its advisors and long-term incentive compensation plan liability ("LTIP") have maturity dates longer than one year and therefore are valued using an appropriate discount rate. The valuation of LTIP also includes estimates for ATB achieving future performance targets that change the amount of the award. The Company's valuation of a financial guarantee liability (note 2) o)) requires management to assess the risk that another entity will not be able to pay some or all of its liabilities. The discount rates, inputs and assumptions for these valuations are reviewed on a regular basis; however, actual values may differ from the Company's estimates.

c. Cash and Bank Overdraft

Cash and bank overdraft consists of cash on deposit and lines of credit. Almost all of the Company's cash balances are held with ATB. The Company primarily uses accounts held with ATB, but also has accounts with another financial institution for cash management purposes.

d. Short-Term Investments

Short-term investments consist of Government of Canada Treasury Bills ("T-Bills") with maturity dates of less than one year.

e. Clients' Cash Held in Trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans ("RRSP"), Registered Retirement Income Funds ("RRIF"), Registered Education Savings Plans ("RESP"), Tax Free Savings Accounts ("TFSA"), and Registered Disability Savings Plan ("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.

f. 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 economic life. No depreciation is calculated on assets under development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 10 years.

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.

g. Software

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 5 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to 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.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

h. 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, 2018 or 2017.

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.

i. Due from (to) Clients and Due from (to) Brokers and Dealers

Due from clients are 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. These amounts are due on demand.

Due from (to) brokers and dealers represents amounts related to trades which have been initiated but not settled.

Due from (to) clients and due from (to) brokers and dealers amounts are recorded on a trade-date basis.

j. 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 current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment 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, 2018 (March 31, 2017 - $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 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.

k. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. 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 revenue in the statement of operations and comprehensive income.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

l. Revenue Recognition

ATBSI's operating revenues consist of mutual fund commissions, fee based revenue, Guaranteed Investment Certificate ("GIC") commissions, client account fees, client referral fees, securities commissions, interest revenue, and other revenue.

Mutual fund commissions are earned from ATBIM-managed funds and from third-party mutual funds. Trailer fee revenue is recorded in mutual fund commissions and represents fees paid to the Company by the mutual funds for the ongoing support of the Company's clients that hold assets in mutual funds. Trailer fee revenues are recognized on an accrual basis as they are earned. Commission revenue earned on mutual fund sales is recognized on a trade-date basis.

Mutual fund commissions include trailer fees paid by ATB to ATBSI for clients' investments in high interest savings account (HISA) mutual funds offered by ATB.

Fee based revenues are earned on customer accounts that pay a contractual fee rate and are recognized on an accrual basis.

Client referral fees include referral fees that are paid by ATBIM to ATBSI as well as referral fees that are paid from ATBIA to ATBSI. The referral fees that are paid by ATBIM are based on a portion of fees generated from clients referred by ATBSI. Insurance referral fees paid by ATBIA are based on revenues generated by the insurance product sales. Client referral fees are recognized on an accrual basis.

Management provides a 2% provision on fee based revenue and client referral revenue from ATBIM at year-end with respect to an estimate for refunded or waived commissions.

Commissions from GIC sales are earned through a referral fee that is paid by ATB. The referral fee is based on 25 basis points ("bps") of the average amount of ATB GICs held by the Company's clients or held by non-clients that the Company referred to ATB, and is recognized on an accrual basis.

Client account fees include transfer fees, deregistration fees, incidental fees, and administration fees from registered plans. Registered plans are established in accordance with the *Income Tax Act* and administration fees are collected annually from all registered account types. Transfer fees, deregistration fees, and incidental fees are recorded as revenue when charges for transfers, deregistrations, and other services occur. Administration fees are earned and recorded on an accrual basis.

Securities commissions are earned on certain equity and fixed income transactions, and are recognized on a trade-date basis.

Interest and other revenue are recorded on an accrual basis.

m. Employee Future Benefits

ATBSI provides future 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 salaries and incentives 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 Securities Inc.
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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. Variable compensation plan payable at the end of the year is recorded in incentive compensation payable.

iii) 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 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. Following the guidance in IAS 19 *(revised) – Employee Benefits* ("IAS 19"), the liability for LTIP is recorded at the present value ("PV") of the grants that have vested as at the year-end 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 compensation payable, and the related expense is included in incentive compensation expenses.

(iv) Loans to Advisors

ATBSI grants loans to its advisors at rates significantly below fair value as an employee benefit. In accordance with IAS 39 *Financial Instruments: Recognition and Measurement,* the loans are initially recorded at fair value, discounted at a market rate for a similar loan. After initial recognition, loans are accounted for at amortized cost with interest income determined using the effective interest method. 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 fair value on initial recognition and carrying value is an employee benefit, and therefore must be accounted for in accordance with IAS 19. As the loans are linked to future employee service, the difference between the carrying value and fair value is recorded as a deferred employee benefit 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 deferred employee benefit is immediately expensed to salaries and employee benefits.

n. 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 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.

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o. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBSI becomes a party to the contractual provisions of the instrument.

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 on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBSI derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value, and are subsequently accounted for based on one of five classifications:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity;
- Investments and available-for-sale financial assets; and
- Other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i) Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are financial assets held-for-trading.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and comprehensive income and are reported as other revenue or other expenses. Interest income and expense on financial assets held-for-trading are included in interest revenue or interest expense. ATBSI has classified short-term investments as held-for-trading.

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ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. ATBSI has classified cash, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from advisors, due from affiliates, and miscellaneous receivables as loans and receivables.

Impairment

At the end of each reporting period, ATBSI assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the 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.

Other Financial Liabilities

i) Financial Liabilities Measured at Amortized Cost

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income. Bank overdraft, due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive compensation payable, and due to ATB are classified as other financial liabilities.

ii) Financial Liabilities at Fair Value Through Profit or Loss

Coincident with ATB's acquisition of a controlling interest in AltaCorp Capital Inc. ("AltaCorp"), on December 6, 2017, ATBSI and AltaCorp (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.

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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 (ATBSI - 100%, AltaCorp - 56.81%). 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. AltaCorp 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 the risk of loss is remote. As of March 31, 2018, no demands have been made under the Agreement and the maximum amount of ATBSI's guarantee under the Agreement is $31,674.

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.

p. Financial Instruments – Estimated 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 their 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, bank overdraft, accrued liabilities, commissions payable, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Short-term investments and the liability for LTIP are carried at fair value. See note 3 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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Financial instruments recorded at fair value, subsequent to their initial recognition, include the following:

- Short-term investments are composed entirely of T-Bills held as part of ATBSI's liquidity management program. The market values of T-Bills are provided to ATBSI by a third party. Prices are determined based on recent activity in an active over the counter market. These short-term investments amounting to $47,931 (March 31, 2017 - $37,968) are classified as level 1 under the fair value hierarchy.
- The market rate for similar loans was used to determine the discount rate for loans to advisors. The fair value of these loans is $1,108 (March 31, 2017 - $919) and are classified as Level 2 under the fair value hierarchy.
- The fair value of the LTIP component of incentive compensation payable amounting to $1,067 (March 31, 2017 - $798) 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 3.7% per annum (March 31, 2017 - 10%). 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, 2018	**March 31, 2017**
	$	**$**
Fair value as at beginning of year	798	912
Vesting of previous and current awards	607	457
Changes in estimates	79	53
Settled	(417)	(624)
Fair value as at end of year	**1,067**	**798**

There have been no transfers between fair value hierarchy levels during the year.

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 the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBSI can have material amounts of financial instruments denominated in foreign currencies. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

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As at March 31, 2018 and 2017 US dollar denominated balances amounted to:

	US$ March 31, 2018	US$ March 31, 2017
Cash	535	772
Due from clients	163	57
Due from brokers and dealers	57	153
Client fees receivable	42	29
Miscellaneous receivables	124	-
Due to clients	(248)	(322)
Due to brokers and dealers	(96)	(159)
Accrued liabilities	(56)	(5)
	521	**525**

A 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $26 (March 31, 2017 - $26).

Interest rate risk: ATBSI is subject to interest rate cash flow risk as the amount that is due to ATB (note 6(i)) and short-term investments are subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI is exposed to interest rate risk as the fair value of its loans to 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 and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2018, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT (note 6(ii)), would be approximately $17 (March 31, 2017 - $2).

As at March 31, 2018, ATBSI held $47,931 (March 31, 2017 - $37,968) in highly liquid T-Bills. At March 31, 2018, the three series of T-Bills held were earning yields of 108bps, 110bps and 110bps until they mature on April 19, 2018, May 17, 2018 and June 14, 2018 respectively. As at March 31, 2018, if interest rates were to change by 25bps, the change in other revenue would be approximately $120 (March 31, 2017 - $95).

Price risk: ATBSI is not exposed to financial market price risk as no financial instruments were held by the Company at March 31, 2018 and 2017 that will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss to ATBSI. ATBSI is exposed to credit risk primarily through its cash, short-term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to advisors, and miscellaneous receivables.

Virtually all cash is on deposit with ATB, an Alberta Crown Agent, and clients' cash held in trust is on deposit with a reputable financial institution, both from which management believes the risk of loss is remote.

Short-term investments consisting of T-Bills are on deposit with a reputable securities depository from which management believes the risk of loss is remote.

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The credit risk inherent in due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, and miscellaneous receivables is effectively mitigated by ATBSI's diverse customer and trading counterparty base, and the creditworthiness of the counterparties. Management believes credit risk on these balances is low, based on low historical credit losses on these balances. The risk is also mitigated by the fact these balances are on average collected within 60 days of becoming due. Management has not provided an allowance for doubtful accounts on these balances as it believes collectibility is reasonably assured (2017 - $nil).

The inherent risk on due from affiliates is effectively mitigated by the fact management is involved in the operations of these entities from which the Company is owed.

The credit risk inherent on the loans to advisors is effectively mitigated as any amounts past due may be offset against compensation owed to these advisors. Management has provided an allowance of $23 (March 31, 2017 – $27) for doubtful accounts.

The Company's maximum credit exposure is $121,747 (March 31, 2017 - $113,970) which is the sum of cash, short-term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to advisors, and miscellaneous receivables.

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 short-term investments, credit facility (note 13) or parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk that are considered short-term include bank overdraft, due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive compensation payable, and due to ATB.

4. Accounting Changes

Amended Accounting Standards Adopted

IAS 7 *Statement of Cash Flows*

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows,* which are effective for annual periods beginning on or after January 1, 2017. These amendments are intended to provide more information over the entity's financing activities. The update also requires additional disclosure over the changes in liabilities arising from financing activities. These amendments did not have a material impact on the Company's financial statements.

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New Accounting Standards Not Yet Adopted

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, that will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and Measurement
IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories which determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected.

Impairment
IFRS 9 introduces a new impairment model based on expected credit losses. The model will apply to all financial assets, which includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees, with the most significant impact to loans. Financial assets classified or designated at fair value through profit or loss will be excluded from the new impairment model.

ATBSI is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application

ATBSI is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

In January 2016, the IASB issued a new standard that will result in almost all leases being recognized on the statement of financial position. Under the new standard, an asset (the right to use a leased item) and a financial liability to make lease payments are recognized, with the only exceptions being short-term and low-value leases.

ATBSI is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2019.

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5. Due from Affiliates

In the normal course of operations, ATBSI receives trailing commissions and collects client management fees on behalf of ATBIM, receives referral fees from ATBIA, and collects intercorporate management fees from ATBIM and ATBIA. ATBIM and ATBIA may pay for certain expenses on behalf of ATBSI. Alternatively, ATBSI may pay for certain expenses on behalf of ATBIM and ATBIA. These amounts are duly recorded as payables and receivables in each of ATBSI's, ATBIM's, and ATBIA's accounts. The amounts 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, 2018	March 31, 2017
	$	$
Due from ATBIM	1,116	689
Due from ATBIA	17	24
	1,133	**713**

6. Due to ATB

i) Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBSI. The amounts due to ATB are generally settled in the following month.

The amounts due to ATB arising from these transactions are as follows:

	March 31, 2018	March 31, 2017
	$	$
Due to ATB	5,334	3,829

The net amount due to ATB, less PILOT (note 6(ii)), is subject to monthly interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2018 was 3.45% (March 31, 2017 – 2.70%).

ii) Payment in Lieu of Tax (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 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.

For the year ended March 31, 2018, ATBSI accrued and incurred an expense of $3,649 (March 31, 2017 - $3,623) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2018.

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7. Software and Computer Equipment

	Computer Equipment	Computer Equipment under development	Software	Software under development	Total
	$	$	$	$	$
Cost					
Balance at April 1, 2016	1,491	-	20,875	2,172	24,538
Additions	-	15	5,485	4,321	9,821
Transfer to completed asset	-	-	-	(5,485)	(5,485)
Balance at March 31, 2017	1,491	15	26,360	1,008	28,874
Balance at April 1, 2017	1,491	15	26,360	1,008	28,874
Additions	16		2,030	3,678	5,724
Transfer to completed asset	-	(15)	-	(2,030)	(2,045)
Retirements	-	-	(2,485)	-	(2,485)
Balance at March 31, 2018	1,507	-	25,905	2,656	30,068
Accumulated Amortization					
Balance at April 1, 2016	970	-	13,520	-	14,490
Amortization for the year	108	-	3,019	-	3,127
Balance at March 31, 2017	1,078	-	16,539	-	17,617
Balance at April 1, 2017	1,078	-	16,539	-	17,617
Amortization for the year	203	-	3,856	-	4,059
Retirements	-	-	(2,365)	-	(2,365)
Balance at March 31, 2018	1,281	-	18,030	-	19,311
Carrying Amounts					
Balance at March 31, 2017	413	15	9,821	1,008	11,257
Balance at March 31, 2018	226	-	7,875	2,656	10,757

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2018 was $4,059 (March 31, 2017 - $3,127). Retirement of assets during the year resulted in a charge of $120 (March 31, 2017 - $nil) recorded to general and administrative expenses. There were no impairments recognized during the year ended March 31, 2018 (March 31, 2017 - $nil).

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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: ($ in thousands)

	March 31, 2018	March 31, 2017
Class A common shares #	78,995,100	78,995,100
Share capital $	26,391	26,391

9. Capital Risk Management and Restrictions

ATBSI's objectives in managing its capital, which is defined as shareholders' 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. In support thereof, management reviews the financial position of ATBSI on a monthly and cumulative basis. ATBSI works towards managing its capital objectives to the extent possible while facing the challenges of 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 its 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.

There were no changes to IIROC rules that significantly impacted the Company's calculation of RAC during the years presented.

As at March 31, 2018, ATBSI had RAC of $16,477 (March 31, 2017 - $16,749), which exceeded regulatory requirements set out by IIROC. 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.

ATBSI also met all the early warning tests as prescribed by IIROC at March 31, 2018 and 2017.

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10. Intercorporate Management Fees

An intercorporate management fee ("management fee") was implemented in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

11. Related Party Transactions

In the normal course of operations, ATBSI earns income in the form of trailer fees, interest revenue and other income from ATB, ATBIA and ATBIM. ATB also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)).

A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2018 $	March 31, 2017 $
	Revenue and other income			
ATBIM	Trailer fees	Mutual fund commissions	61,341	59,779
ATBIM	Referral fees	Client referral fees	3,422	2,961
ATBIM	Management fees	Intercorporate management fees	13,126	10,136
ATBIA	Insurance referrals	Client referral fees	82	74
ATBIA	Management fees	Intercorporate management fees	126	98
ATB	HISA trailer fees	Mutual fund commissions	1,351	1,884
ATB	GIC commissions	GIC commissions	3,249	3,059
ATB	Interest revenue	Interest revenue	51	36
			82,748	**78,027**
	Administration and selling expenses			
ATB	Partnership development	Salaries and employee benefits	100	100
ATB	Account administration fees	Salaries and employee benefits	(49)	(48)
ATB	Rent	General and administrative expenses	3,587	3,182
ATB	Marketing and community sponsorships	General and administrative expenses	3,042	898
ATB	IT	IT infrastructure and services	4,336	3,182
ATB	Professional services	Professional fees	815	855
ATB	Interest expense and standby charges	Banking and interest charges	39	39
ATBIM	Account administration fees	Salaries and employee benefits	(15)	(14)
ATBIA	Account administration fees	Salaries and employee benefits	(1)	(1)
			11,854	**8,193**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2017 (for the year ended March 31, 2018) and April 1, 2016 (for the year ended March 31, 2017).

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 compensation comprises:

	March 31, 2018	Restated March 31, 2017	Previous March 31, 2017
	$	$	
Short-term employee benefits	2,462	2,089	2,802
Deferred compensation	539	400	1,162
Retirement and post employment benefits	246	255	359
Severance	-	523	523
	3,247	**3,267**	**4,846**

Prior year comparative figures have been restated to correct underlying calculations for the same key management personnel previously included. A portion of the compensation paid by ATBSI for key management personnel is recovered by the Company through the management fees (note 10) charged to ATBIM and ATBIA.

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 Investor Services 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.

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 ATBIS 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 the risk, if the ATBIS valuation decreases, that the note holder will lose some or all of the original investment.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2018 the liability recorded by ATB with regards to Achievement Notes owned by employees of ATBSI is $34,482 (March 31, 2017 - $29,158). The $5,324 (March 31, 2017 - $453) change in the liability from the prior year is a result of $1,648 (March 31, 2017 - $1,654) in new subscriptions, $874 (March 31, 2017 - $7,224) in Achievement Notes redeemed during the year and an increase of $4,550 (March 31, 2017 - $5,117) due to appreciation and vesting of the Achievement Notes.

12. Employee Future Benefits

i) Defined contribution plan

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, RRSP, RESP, or ATB mortgage. For the year ended March 31, 2018, expenses related to the plan, which are recorded in salaries and employee benefits, were $4,817 (March 31, 2017 – $4,740).

ii) Incentive compensation plan

As at March 31, 2018, the Company had accrued and expensed $4,076 (March 31, 2017 - $1,896) for variable compensation plans related to the achievement of goals and performance targets (note 2) m) ii)).

For LTIP (note 2) m) iii)), amounts as at March 31, 2018 are as follows:

Fiscal Year Issued	LTIP Grants Issued	Allowance for Early Termination	Vested	PV of the Grants Vested
	$	$	$	$
2016	406	-	406	406
2017	693	35	439	425
2018	802	40	253	236
Total	**1,901**	**75**	**1,098**	**1,067**

The value presented for LTIP grants issued includes the appreciation and depreciation of those awards. Of the $1,067 (March 31, 2017 - $798) present value of the obligation that has vested, $406 (March 31, 2017 - $403) is included in the current portion of the incentive compensation payable and $661 (March 31, 2017 - $395) is included in the long-term portion. The related expense of $712 (March 31, 2017 - $488) is recorded in incentive compensation expenses.

iii) Due from Advisors

The Company provides low-interest loans to new advisors in order to assist them grow their client base. Loans to advisors bear interest at 1% (March 31, 2017 - 1%). On initial recognition, the loans are discounted using market rates of interest for similar loans of 9% (March 31, 2017 - 9%). The current portion of the present value discount is recorded in prepaid expenses and the long-term portion is recorded as deferred employee benefits. These amounts will be amortized and recorded as salaries and employee benefits expense over the life of the loans. Other expenses represent costs paid by the Company on behalf of its advisors that are subsequently collected from the advisors, and are not part of the low-interest loan program.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2018 ($ thousands)

	March 31, 2018	March 31, 2017
	$	$
Face value - current	310	305
Present value discount - current	(52)	(60)
Allowance for doubtful accounts	(7)	(7)
Other expenses	323	-
Due from advisors - Current	**574**	**238**
Face value - long-term	667	856
Present value discount - long-term	(117)	(155)
Allowance for doubtful accounts	(16)	(20)
Due from advisors - Long-term	**534**	**681**

13. Credit Facility

ATBSI has access to a $10,000 (March 31, 2017 - $10,000) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 3.20% at March 31, 2018 (March 31, 2017 – 2.45%). As at March 31, 2018, $877 (March 31, 2017 - $nil) was drawn on the facility and a standby fee of $25 (March 31, 2017 - $25) was paid during the year on the undrawn portion and is included in banking and interest charges.

14. Commitments - Contractual Obligations

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	$
2019	1,258
2020	1,258
2021	629
	3,145

15. Comparative Figures

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

Financial Information

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Year Ended December 31, 2017

Auditor General OF ALBERTA

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

March 14, 2018

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

(Thousands of dollars)

As at December 31

	Notes	2017	2016
ASSETS			
Cash and cash equivalents	4	$ 3,226	$ 6,115
Assessments receivable		3,461	3,398
Accrued interest receivable and prepaid expenses		1,133	1,296
Current tax receivable		489	-
Deferred tax assets		1,381	-
Investments	5, 6	337,536	320,942
Property, equipment and intangible assets		294	193
TOTAL ASSETS		**347,520**	**331,944**
LIABILITIES			
Accounts payable and accrued liabilities		$ 444	$ 510
Current tax liability		-	77
Deferred tax liability		-	78
Unclaimed credit union balances	8	2,434	2,409
TOTAL LIABILITIES		**2,878**	**3,074**
EQUITY			
Deposit guarantee fund		349,369	328,512
Accumulated other comprehensive (loss) income		(4,727)	358
TOTAL EQUITY		**344,642**	**328,870**
TOTAL LIABILITIES AND EQUITY		**$ 347,520**	**$ 331,944**
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 14, 2018

Original signed by

John McGowan
Chair, Board of Directors

Original signed by

Jim McKillop
Chair, Audit and Finance Committee

STATEMENT OF COMPREHENSIVE INCOME

(Thousands of dollars)

For the Years Ended December 31

	Notes	2017	2016
NET INCOME			
Revenue			
Assessment revenue	9	$ 19,140	$ 31,178
Investment income	9	9,496	11,281
		28,636	**42,459**
Expenses			
Administration expenses	10	7,247	7,021
Recovery of financial assistance	7	-	(131)
		7,247	**6,890**
Income before income taxes		21,389	35,569
Income tax expense	11	532	963
NET INCOME		**$ 20,857**	**$ 34,606**
OTHER COMPREHENSIVE LOSS, NET OF TAX			
Items that will be reclassified to net income			
Net unrealized gain (loss) on available-for-sale financial instruments			
Other comprehensive loss		(6,664)	(4,736)
Income tax recovery		1,499	1,034
Reclassification to net income, net of tax		80	(841)
OTHER COMPREHENSIVE LOSS, NET OF TAX		**(5,085)**	**(4,543)**
COMPREHENSIVE INCOME		**$ 15,772**	**$ 30,063**

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(Thousands of dollars)

For the Years Ended December 31

	Deposit Guarantee Fund	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance as at December 31, 2015	**$ 293,906**	**$ 4,901**	**$ 298,807**
Net income	34,606	-	34,606
Other comprehensive loss, net of tax	-	(4,543)	(4,543)
Balance as at December 31, 2016	**$ 328,512**	**$ 358**	**$ 328,870**
Net income	20,857	-	20,857
Other comprehensive loss, net of tax	-	(5,085)	(5,085)
Balance as at December 31, 2017	**$ 349,369**	**$ (4,727)**	**$ 344,642**

The accompanying notes are part of these financial statements.

Financial Information

STATEMENT OF CASH FLOWS

(Thousands of dollars)

For the Years Ended December 31

	2017	2016
		(Note 16)
Operating activities:		
Net Income	$ 20,857	$ 34,606
Adjustments for:		
Amortization	103	159
Investment income	(2,417)	(3,078)
Deferred income taxes	17	5
(Increase) decrease in assessments receivable	(63)	2,190
Decrease (increase) in accrued interest receivable and prepaid expenses	163	(42)
Increase current tax receivable	(565)	-
Decrease in accounts payable and accrued liabilities	(66)	(51)
Decrease in current tax liability	-	(203)
Decrease in provision for financial assistance	-	(131)
Increase in long-term unclaimed credit union balances	25	852
Cash flows from operating activities	**18,054**	**34,307**
Investing activities:		
Purchase of investments	(80,762)	(95,259)
Proceeds from sales of investments	60,023	61,681
Purchase of property, equipment and intangible assets	(204)	(74)
Cash flows used in investing activities	**(20,943)**	**(33,652)**
(Decrease) Increase in cash and cash equivalents	(2,889)	655
Cash and cash equivalents, at beginning of year	6,115	5,460
Cash and cash equivalents, at end of year	**$ 3,226**	**$ 6,115**

The accompanying notes are part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 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, 2017, credit unions in Alberta held deposits, including accrued interest, totalling $21,439,839 (2016: $21,114,111).

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.

NOTE 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 14, 2018.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and expressed in thousands of dollars.

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the provision for financial assistance (Note 7: Provision for Financial Assistance), assessments receivable and the fair value of investments (Note 5: Fair Value of Financial Instruments). Actual results may differ from these estimates depending upon certain future events and uncertainties.

The Corporation presents its Statement of Financial Position in order of liquidity.

NOTE 3 Significant Accounting Policies

Basis of Measurement

The historical cost basis of measurement, except for available-for-sale financial assets that are measured at fair value in the Statement of Financial Position, is used in preparation of the financial statements.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Financial Instruments (continued)

Classifications are:

Loans and receivables	Loans and receivables are recorded at amortized cost. Interest received is accounted for using the effective interest method.	Cash and cash equivalents Assessments receivable Accrued interest receivable
Available-for-sale	Available-for-sale financial assets are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to net income. Investments are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, they are measured at fair value. Changes other than impairment losses are recognized in comprehensive income and presented within equity. For available-for-sale financial assets that do not have quoted market prices, cost represents reasonable fair value for these assets.	Investments
Financial liabilities	Financial liabilities are recorded at amortized cost which is a reasonable estimate of the fair value of these instruments.	Accounts payable and accrued liabilities Provision for financial assistance Unclaimed credit union balances

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment on a quarterly basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- the probability that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When a financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are transferred to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income. The carrying amount of the investment at the date the impairment is reversed will not exceed what the amortized cost would have been had the impairment not been recognized.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

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.

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

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Provision for Financial Assistance (continued)

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.

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; and
- It is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received four times per year.

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.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

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. Obligations for contributions to defined contribution 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.

Leases

Operating leases are leases whose terms do not transfer the risks and rewards of ownership to the lessee. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

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 liability is 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 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.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 **Significant Accounting Policies** (continued)

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 available-for-sale.

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 available-for-sale investments are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. The Statement of Changes in Equity presents the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statement of Financial Position.

Future Changes in Accounting Policies

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these financial statements.

IFRS 9 – Financial Instruments

On July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments to replace the classification and measurement, impairment and hedge accounting phases of IAS 39 – Financial Instruments: Recognition and Measurement. The new standard includes requirements for the classification and measurement of financial assets and liabilities, an expected credit losses model that replaces the incurred loss impairment model used currently and the final hedging part of IFRS 9 that was issued in November 2013. The Standard supersedes all previous versions of IFRS 9.

The Corporation has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018.

The Corporation's segregated portfolio currently classified as available-for-sale will be classified as fair value through other comprehensive income (FVOCI), hence there will be no change to the accounting for these assets. Investments held in the bond pool currently classified as available-for-sale do not meet the criteria to be classified either as FVOCI or at amortized cost and $53,355 will be reclassified to financial assets at fair value through profit or loss (FVTPL). An unrealized fair value loss adjustment of $1,219 will be transferred from AOCI to the deposit guarantee fund on January 1, 2018.

The Corporation also holds equity investments currently classified as available for sale for which an election was made to classify as FVOCI. With this election, only dividend income will be recognized in the statement of comprehensive income. The changes in fair value are recognized in other comprehensive income and never reclassified to profit and loss, even if the asset is impaired, sold or otherwise derecognized.

There will be no impact on the Corporation's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Corporation does not have any such liabilities.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

IFRS 9 – Financial Instruments (continued)

There will be no impact on the Corporation's accounting in relation to new hedge accounting, as the Corporation does not have any hedging.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Corporation expects an immaterial impairment allowance.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Corporation's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Corporation will apply the new standard from January 1, 2018. The Corporation will not restate comparatives for 2017. The changes will be reflected in the opening balance of the deposit guarantee fund.

IFRS 15 – Revenue from Contract with Customers

On May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers which provides a single, principles based five-step model to be applied to all contracts with customers. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount the entity expects to be entitled. The standard provides guidance on the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. The revenue arising from financial instruments is not required to apply the revenue requirements in IFRS 15. The standard is effective for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Corporation has assessed the effects of applying the new standard on financial statements and there is no impact to the Corporation.

IFRS 16 – Leases

On January 13, 2016, the IASB published the new standard, IFRS 16 – Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease. IFRS 16 supersedes the requirements of IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC 15 – Operating Leases Incentives and SIC 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for periods beginning on or after January 1, 2019. The Corporation is evaluating the impact of the standard on its financial statements.

NOTE 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, 2017, securities held in CCITF have a rate of return of 0.9% per annum (2016: 0.9%).

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 5 Investments

The fair value of the Corporation's investments is summarized below:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Directly held				
Securities issued or guaranteed by:				
Canada	$ 93,516	$ 96,909	$ 66,395	$ 67,777
Provinces	80,255	80,991	89,961	88,525
Financial institutions	71,118	71,538	71,354	70,380
Infrastructure	-	-	3,156	3,417
Asset backed securities and other[1]	39,292	39,623	39,795	39,624
Bond Pool	53,355	54,574	50,281	50,757
Total	**$ 337,536**	**$ 343,635**	**$ 320,942**	**$ 320,480**

[1] Other securities total $115 (2016: $115) are shares of Credit Union Central Alberta Limited at $100 (2016: $100) and Concentra Bank (formerly Concentra Financial Services Association) at $15 (2016: $15).

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.

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed income securities, directly held	$ 92,903	$ 191,163	$ 115	$ 284,181	$ 74,913	$195,633	$ 115	$270,661
Bond Pool	-	53,355	-	53,355	-	50,281	-	50,281
Total	**$ 92,903**	**$ 244,518**	**$ 115**	**$ 337,536**	**$ 74,913**	**$245,914**	**$ 115**	**$320,942**

There were no transfers (2016: 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)

NOTE 5 Investments (continued)

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 shares in Credit Union Alberta Central Limited ($100) and Concentra Bank ($15) 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. On this basis, the shares are classified as Level 3 as available-for-sale and the cost (i.e. par value) is considered to be the fair market value of the shares. 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 (i.e. profit, loss, purchase, sales or transfers).

NOTE 6 Investment Risk Management

The Corporation established an investment policy that is reviewed annually. 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 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 consists of investment grade securities. The Bond Pool has a market-based unit value that is used

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 6 Investment Risk Management (continued)

to allocate income to participants and to value purchases and sales of pool units. The Corporation's units in the Bond Pool represents approximately 0.5% (2016: 0.7%) of the Bond Pool's outstanding units. The investment in units of the Bond Pool can be sold with one week's notice.

As at December 31, 2017, securities directly held (excluding the Bond Pool) have an average effective market yield of 2.2% (2016: 1.7%) based on fair value. As at December 31, 2017, securities held by the Bond Pool have an average effective market yield of 3.0% per annum (2016: 2.9%).

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, 2017, the average return over a rolling four year period over the benchmark is 32 bps (2016: 40 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 respond to 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 for federal and provincial investments, AA for financial institutions, AAA for asset backed securities and A 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 table below shows the credit risk exposure of the segregated portfolio at the end of the reporting period.

	2017			2016		
Credit Rating	Fair Value	Book Value	% of Total	Fair Value	Book Value	% of Total
AAA	$ 132,693	$ 136,417	46.7%	$ 106,075	$ 107,285	39.2%
AA	60,211	60,539	21.2%	59,519	58,558	22.0%
AAL	51,220	51,147	18.0%	52,076	50,948	19.3%
AH	36,436	37,326	12.8%	49,416	49,299	18.3%
AL	3,506	3,517	1.3%	3,460	3,518	1.2%
Total	**$ 284,066**	**$ 288,946**	**100.0%**	**$ 270,546**	**$ 269,608**	**100.0%**

Note: Excludes Credit Union Alberta Central 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 units held are considered investment grade securities as the majority of the investments in the Bond Pool are of investment grade quality.

Financial Information

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 6 Investment Risk Management (continued)

i) Credit Risk (continued)

The credit unions are billed quarterly and payments are paid to the Corporation via electronic fund transfers. Historically, there have been no issues of collectability of assessment revenue from any credit union.

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. Any changes would impact cash flow, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. An increase or decrease of one percent would result in a decrease or increase of $16,639 (2016: $15,706) 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 cash and funding requirements in support of the guarantee of deposits at credit unions. The Corporation's principal sources of funds are cash generated from credit union deposit guarantee assessments and interest earned on its investments to meet its financial obligation to guarantee deposits at the credit unions. All of the Corporation's investments are classified as available-for-sale and can readily be sold should the need arise.

The term structure for the segregated and the Bond Pool is presented in the table below:

	Securities		Bond Pool	
	2017	2016	2017	2016
Under 1 year to 5 years	60%	67%	29%	30%
Over 5 years	40%	33%	71%	70%

NOTE 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 amount. The expected timing of outflows of economic benefit are dependent on future events. As such, actual losses may differ significantly from estimate.

There were no indemnification agreements outstanding with credit unions in 2017.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 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 2017 is 1% (2016: 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. On that transfer, the person(s) entitled to that money can no longer make a claim.

NOTE 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 for 2017 is 0.09% of credit unions' deposits and borrowings (2016: January to October 2016 is 0.16% and 0.09% in November and December 2016). Assessments received by the Corporation from the largest credit union represent 59% of the total assessments received.

Investment Income

Investment income is as follows:

	2017	2016
Investment and dividend income	$ 9,598	$ 10,196
Net (loss) gain on sale of investments	(102)	1,085
Total investment income	**$ 9,496**	**$ 11,281**

For 2017, no adjustments for impairment losses (2016: Nil) were required.

NOTE 10 Administration Expenses

	2017	2016
Salaries and benefits	$ 5,586	$ 5,355
Lease payments	484	476
Professional fees	340	303
Office	206	196
Depreciation and amortization	103	159
Other	179	142
Board and committee fees	161	149
Staff travel	132	151
Board and committee expenses	56	90
Total administration expenses	**$ 7,247**	**$ 7,021**

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 11 Income Tax Expense

The Corporation's statutory income tax rate is 22.5% (2016: 22.5%). 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:

	2017	2016
Expected income taxes on pre-tax net income at the statutory rate	$ 4,813	$ 8,003
Add (deduct) tax effect of:		
Non-taxable assessments	(4,307)	(7,015)
Non-deductible recovery of financial assistance	-	(30)
Other	26	5
Total income taxes	**$ 532**	**$ 963**

At December 31, 2017, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $38 (2016: $114). The resulting deferred tax asset is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 22%.

NOTE 12 Retirement Benefit Plans

The Corporation maintains a defined contribution plan for its employees where the cost is charged to net income or expenses when recognized. The Corporation contributes 9% (2016: 9%) of the employees' gross salary including any paid vacation pay to each employee's RRSP and the employee contributes a required minimum of 3% (2016: 3%). Participation is compulsory for all permanent employees. The RRSP deductions are remitted monthly to the administrator of the group plan.

The total expense recognized in the Statement of Comprehensive Income of $406 (2016: $415) represents contributions paid to these plans by the Corporation. As at December 31, 2017, no contributions (2016: Nil) were outstanding in respect of the 2017 reporting period.

The Corporation does not have any defined benefit plans nor are there any post-retirement benefits.

NOTE 13 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 $270 (2016: $257).

The Board of Directors, executives and their immediate family members are also deemed to be related parties. The Board Chair for the Corporation reports directly to the President of Treasury Board and Minister of Finance. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board members and its executives. The directors and executives' remuneration are disclosed in the table below. As at December 31, 2017 the balance of compensation payable was $24 (2016: $26).

Financial Information

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 13 Related Party Transactions (continued)

	2017				2016
	Salary[1]	Other Compensation[2]	Other Non-Cash Benefits[3]	Total	Total
Chair[4,5]	$ 35	$ -	$ -	$ 35	$ 33
Board members[4,5]	129	-	-	129	110
Executives:					
President & CEO	309	58	9	376	376
Executive Vice President, Regulation & Risk Assessment	227	47	9	283	281
Vice President, Finance & Enterprise Risk	204	47	9	260	263
Vice President, Business Services & Regulatory Practices	190	46	9	245	244
Total remuneration	**$ 1,094**	**$ 198**	**$ 36**	**$ 1,328**	**$ 1,307**

1 Salary includes regular base pay.

2 Other compensation includes wellness, vehicle allowance, contributions to the group Registered Retirement Savings Plan (RRSP), independent life and accidental disability insurance and parking. The total amount contributed to executive RRSPs in the defined contribution plans was $104 (2016: $101). 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 and EI, WCB and health and dental premiums.

4 The Chair receives a retainer paid monthly for an annual amount of $10. The Chair and Board members are paid on a per diem basis for preparation and meeting time.

5 The minimum and maximum amounts paid to directors were $14 (2016: $5) and $31 (2016: $33), respectively. The average amount paid to directors was $20 (2016: $16).

NOTE 14 Commitments

The Corporation is a lessee under an operating lease related to the office space. The lease agreement expires at the end of August 2021. The following represents the minimum payments over the next five years.

Not later than one year	$ 485
Later than one year and not later than 5 years	1,296
Later than 5 years	-

NOTE 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 Deposit Guarantee Fund, and reviewing the assessment rates for credit unions.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 15 Capital Management (continued)

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 Deposit Guarantee Fund and the accumulated other comprehensive income. Since we reached the Fund size target of 1.50%, the Fund 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.

NOTE 16 Comparative Figures

The 2016 comparative was reclassified in the Statement of Cash Flows as a result of using the indirect method. Certain 2016 figures have been reclassified, where necessary, to conform to 2017 presentation.

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Other Information

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Supplementary Information

Required by Legislation or by Direction of the President of Treasury Board, Minister of Finance

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Public Interest Disclosure (Whistleblower Protection) Act

(Unaudited)
For the year ended March 31, 2018

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 was one disclosure of wrongdoing filed with my office for your department between April 1, 2017 and March 31, 2018. As the discloser was not an employee of the government, no investigation was conducted and the individual was referred to the Office of the Public Interest Commissioner.

Statement of Remissions, Compromises and Write-offs

(Unaudited)
For the year ended March 31, 2018

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	$ 29,215,121
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	119,066
ATB Financial	
Loans and accounts receivable	105,670
Total write-offs	$ 29,439,857
Compromises	
Corporate Income Tax	19,278
Total write-offs and compromises	$ 29,459,135

Statement of Borrowings Made Under Section 56 of the *Financial Administration Act*

(Unaudited)
For the year ended March 31, 2018

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 43,325,712,245	$ 43,192,145,067
Debentures	13,224,598,250	12,363,158,250
	$ 56,550,310,495	$ 55,555,303,317

Other Information

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)
For the year ended March 31, 2018

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 2017-18 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act* was $ nil.

Statements of Guarantees and Indeminities

(Unaudited)
For the year ended March 31, 2018

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, 2018, 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	$ 119,066	$ -

LONG TERM DISABILITY INCOME CONTINUANCE PLAN - BARGAINING UNIT

Financial Statements

Year Ended March 31, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Long Term Disability Income Continuance Plan – Bargaining Unit, which comprise the statement of financial position as at March 31, 2018, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Long Term Disability Income Continuance Plan – Bargaining Unit as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 31, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands) 2018	2017
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 279,584	$ 276,323
Contributions receivable		
Employer	255	288
Employee	255	287
Accounts receivable	176	201
Total Assets	280,270	277,099
Liabilities		
Accounts payable and accrued liabilities	1,421	1,184
Total Liabilities	1,421	1,184
Net assets available for benefits	278,849	275,915
Benefit obligation and surplus		
Benefit obligation (Note 5)	166,866	174,400
Surplus (Note 6)	111,983	101,515
Benefit obligation and surplus	**$ 278,849**	**$ 275,915**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2018

	($ thousands) 2018	2017
Increase in assets		
Contributions:		
Employers	$ 14,112	$ 17,311
Employees	14,109	17,309
Investment income (Note 7)	16,494	26,234
	44,715	60,854
Decrease in assets		
Benefit payments	34,684	34,423
Adjudication	3,429	2,786
Severance	1,268	627
Rehabilitation	759	535
Investment expenses (Note 8)	1,157	1,210
Administrative expenses (Note 9)	475	542
Bad debt	9	-
	41,781	40,123
Increase in net assets	2,934	20,731
Net assets available for benefits at beginning of year	275,915	255,184
Net assets available for benefits at end of year	**$ 278,849**	**$ 275,915**

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

Statement of Changes in Benefit Obligation

Year ended March 31, 2018

	($ thousands)	
	2018	**2017**
Increase in benefit obligation		
New claims	$ 30,368	$ 32,556
Interest accrued on benefits	6,126	6,033
	36,494	38,589
Decrease in benefit obligation		
Benefit payments	34,684	34,423
Terminations other than expected	(508)	525
Change in CPP offset assumption	2,546	144
Change in claims termination rates assumption	3,542	-
Other net experience gains	3,764	1,275
	44,028	36,367
(Decrease) increase in benefit obligation	(7,534)	2,222
Benefit obligation at beginning of year	174,400	172,178
Benefit obligation at end of year	$ 166,866	$ 174,400

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

Other Information

NOTES TO THE FINANCIAL STATEMENTS
Year ended March 31, 2018
(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, 2018 are 1.00% (2017: 1.35%) of insurable salary for employers and 1.00% (2017: 1.35%) for employees. The rates are to be reviewed at least once every three years by the Deputy Minister of the Public Service Commission 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 $266 (2017: $275).

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) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) 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 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 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.

d) 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:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

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.

e) 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.

f) 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.

g) 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.

h) 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 timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland 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 timberland 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 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, 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]			2018	2017
	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 4,972	$ -	$ 4,972	$ 5,643
Bonds, mortgages and private debt	-	125,506	7,429	132,935	126,156
	-	130,478	7,429	137,907	131,799
Equities					
Canadian	21,359	1,378	5,474	28,211	30,282
Foreign	49,732	4,081	17,290	71,103	72,024
Private	-	-	5,713	5,713	6,397
	71,091	5,459	28,477	105,027	108,703
Inflation sensitive and alternatives					
Real estate	-	-	22,183	22,183	21,445
Infrastructure	-	-	7,258	7,258	8,544
Timberland	-	-	5,040	5,040	3,415
	-	-	34,481	34,481	33,404
Strategic, tactical and currency investments *	-	132	2,037	2,169	2,417
Total investments	$ 71,091	$ 136,069	$ 72,424	$ 279,584	$ 276,323

* 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. This level includes publicly traded listed equity investments totalling $71,091 (2017: $71,509).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $136,069 (2017: $133,710). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $72,424 (2017: $71,104).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2018	2017
Balance, beginning of year	$ 71,104	$ 73,489
Investment income *	4,372	9,042
Purchases of Level 3 pooled fund units	7,178	17,669
Sale of Level 3 pooled fund units	(10,230)	(29,096)
Balance, end of year	**$ 72,424**	**$ 71,104**

* Investment income includes unrealized losses of ($156) (2017: ($1,951))

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:

- ***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 timberland 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.
- ***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 and 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, 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, Minister of Finance has established the following target policy asset mix:

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2018 ($ thousands)	2018 %	Actual Asset Mix 2017 ($ thousands)	2017 %
Money market and fixed income	35 - 55%	$ 137,907	49.3	$ 131,799	47.7
Equities	20 - 58%	105,027	37.6	108,703	39.3
Inflation sensitive and alternatives	7 - 20%	34,481	12.3	33,404	12.1
Strategic, tactical and currency	(a)	2,169	0.8	2,417	0.9
		$ 279,584	100.0	$ 276,323	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.

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.

The following table summarizes the Plan's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	93.6%	94.8%
Speculative Grade (BB+ or lower)	0.6%	0.3%
Unrated	5.8%	4.9%
	100.0%	100.0%

Other Information

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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, 2018, the Plan's share of securities loaned under this program is $20,863 (2017: $22,371) and collateral held totals $22,345 (2017: $23,523). 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 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% (2017: 25%) of the Plan's investments, or $68,264 (2017: $68,697), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 12% (2017: 13%) and the Euro, 3% (2017: 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 Plan would be approximately 2.4% (2017: 2.5%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2018:

($ thousands)

	2018		2017	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 34,834	$ (3,483)	$ 36,058	$ (3,606)
Euro	7,488	(749)	8,047	(805)
Japanese yen	5,202	(520)	5,104	(510)
British pound	3,745	(374)	3,754	(375)
Other foreign currency	16,995	(1,700)	15,734	(1,573)
Total foreign currency investments	$ 68,264	$ (6,826)	$ 68,697	$ (6,870)

(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 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 3.4% (2017: 3.1%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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 4.6% (2017: 4.5%) of total investments. 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 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 payables related to the purchase of 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.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2018	2017
Contracts in net favourable position (current credit exposure)	59	$ 2,417	$ 1,722
Contracts in net unfavourable position	20	(2,859)	(1,225)
Net fair value of derivative contracts	79	$ (442)	$ 497

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 $2,417 (2017: $1,722) 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	2018	2017
Structured equity replication derivatives	$ (683)	$ 378
Foreign currency derivatives	(902)	(186)
Interest rate derivatives	1,058	70
Credit risk derivatives	85	235
Net fair value of derivative contracts	$ (442)	$ 497

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Structured equity replication derivatives: Equity index swaps 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 index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii. Foreign currency derivatives: 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: 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. Deposits: At March 31, 2018 deposits in futures contracts margin accounts totaled $775 (2017: $256) and deposits as collateral for derivative contracts totaled $116 (2017: $50).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2017 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2018.

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 Deputy Minister of the Public Service Commission.

The major assumptions used were:

	%	
	2018 Extrapolation	**2017 Valuation**
Interest discount rate (net of investment and administrative expenses)	3.9	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	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 3.9% (2017: 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 30% (2017: 30%) of experience rated premiums was appropriate for estimating the reserve amount.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2018. 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 2019.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2018, based on the extrapolation performed from the December 31, 2017 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 $4.2 million (2017: $4.4 million).

NOTE 6 SURPLUS

	($ thousands) 2018	2017
Surplus at beginning of year	$ 101,515	$ 83,006
Increase in net assets available for benefits	2,934	20,731
Net decrease (increase) in benefit obligation	7,534	(2,222)
Surplus at end of year	$ 111,983	$ 101,515

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	2018 Total	2017 Total
Money market and fixed income	$ 4,938	$ (2,358)	$ 2,580	$ 4,437
Equities				
Canadian	1,348	(373)	975	4,707
Foreign	9,331	(348)	8,983	14,185
Private	113	26	139	349
	10,792	(695)	10,097	19,241
Inflation sensitive and alternatives				
Real estate	731	1,124	1,855	1,286
Infrastructure	1,329	(449)	880	841
Timberland	365	278	643	413
	2,425	953	3,378	2,540
Strategic, tactical and currency investments	535	(96)	439	16
	$ 18,690	$ (2,196)	$ 16,494	$ 26,234

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 $1,829 and ($3,940) respectively (2017: $4,350 and ($32) respectively). Realized and unrealized gains and losses on currency hedges total $113 and ($198) respectively (2017: ($94) and $48 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) 2018	2017
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 933	$ 966
Performance based fees [(a)]	212	232
	1,145	1,198
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 1,157	$ 1,210
(Decrease) increase in expenses	(4.4%)	0.2%
Increase in average investments under management	4.4%	3.8%
Increase in value of investments attributed to AIMCo	1.0%	1.8%
Investment expense as a percent of:		
Dollar earned	7.0%	4.6%
Dollar invested	0.4%	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.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands) 2018	2017
General administration costs		
Salaries and related expenses	$ 266	$ 275
Fund Administration - Union liaison and others	74	72
Actuarial fees	84	72
Supplies and services	51	123
	$ 475	$ 542

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.

	2018	2017	2016	2015	2014
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	4.7	8.1	(0.2)	12.9	15.1
Value added return by investment manager	1.0	1.8	2.1	(1.0)	1.0
Time weighted rate of return, at fair value [a]	**5.7**	**9.9**	**1.9**	**11.9**	**16.1**
Other sources [b]	(4.6)	(1.8)	(2.4)	(0.3)	2.2
Per cent change in net assets [c]	**1.1**	**8.1**	**(0.5)**	**11.6**	**18.3**
Per cent change in benefit obligation [c]	**(4.3)**	**1.3**	**1.6**	**9.7**	**8.5**
Per cent of benefit obligation supported by net assets	**167**	**158**	**148**	**151**	**149**

(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 9.0% (PBR: 8.0%), ten years is 6.8% (PBR: 6.3%) and since inception is 6.4% (PBR: 6.0%).

(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 $111,983 (2017: surplus of $101,515) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is not involved in any legal matters where damages are being sought.

The Plan has not been named in any (2017: one) claim, and as such, no amounts are accrued in these financial statements.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2018 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of the Public Service Commission and the Senior Financial Officer on May 31, 2018.

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LONG TERM DISABILITY INCOME CONTINUANCE PLAN - MANAGEMENT, OPTED OUT AND EXCLUDED

Financial Statements

Year Ended March 31, 2018

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded, which comprise the statement of financial position as at March 31, 2018, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 31, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018

	($ thousands)	
	2018	**2017**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 69,537	$ 72,562
Employer contributions receivable	68	86
Total Assets	69,605	72,648
Liabilities		
Accounts payable and accrued liabilities	407	259
Total Liabilities	407	259
Net assets available for benefits	69,198	72,389
Benefit obligation and surplus		
Benefit obligation (Note 5)	39,393	40,950
Surplus (Note 6)	29,805	31,439
Benefit obligation and surplus	**$ 69,198**	**$ 72,389**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2018

	($ thousands)	
	2018	**2017**
Increase in assets		
Employer contributions	$ 3,018	$ 4,884
Investment income (Note 7)	4,244	6,835
	7,262	11,719
Decrease in assets		
Benefit payments	9,285	9,142
Adjudication	467	365
Rehabilitation	65	81
Severance	91	119
Investment expenses (Note 8)	338	341
Administrative expenses (Note 9)	207	192
	10,453	10,240
(Decrease) increase in net assets	(3,191)	1,479
Net assets available for benefits at beginning of year	72,389	70,910
Net assets available for benefits at end of year	**$ 69,198**	**$ 72,389**

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

Statement of Changes in Benefit Obligation

Year ended March 31, 2018

	($ thousands) 2018	2017
Increase in benefit obligation		
New claims	$ 9,465	$ 7,183
Interest accrued on benefits	1,569	1,588
	11,034	8,771
Decrease in benefit obligation		
Benefit payments	9,285	9,142
Terminations other than expected	1,252	542
Change in CPP offset assumption	355	21
Change in claims termination rates assumption	865	-
Other net experience gains (losses)	834	(220)
	12,591	9,485
Decrease in benefit obligation	(1,557)	(714)
Benefit obligation at beginning of year	40,950	41,664
Benefit obligation at end of year	$ 39,393	$ 40,950

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

Other Information

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2018
(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, 2018 is 0.30% (2017: 0.60%) of insurable salary of eligible employees with the exception of Provincial Judges with the rate of 0.55% (2017: 1.10%). The rates are to be reviewed at least once every three years by the Deputy Minister of the Public Service Commission 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 $112 (2017: $111).

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) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) 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 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 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.

d) 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:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

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.

e) 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.

f) 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.

g) VALUATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts payable and accrued liabilities are estimated to approximate their book values.

h) 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 timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and
ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland 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 timberland 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 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, 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]			2018	2017
	Level 1	Level 2	Level 3	Fair Value	Fair Value
Money market and fixed income					
Deposits and short-term securities	$ -	$ 2,124	$ -	$ 2,124	$ 1,644
Bonds, mortgages and private debt	-	29,635	2,215	31,850	32,382
	-	31,759	2,215	33,974	34,026
Equities					
Canadian	5,254	340	1,346	6,940	7,925
Foreign	11,472	945	4,131	16,548	18,050
Private	-	-	1,601	1,601	1,930
	16,726	1,285	7,078	25,089	27,905
Inflation sensitive and alternatives					
Real estate	-	-	6,321	6,321	6,138
Infrastructure	-	-	2,172	2,172	2,794
Timberland	-	-	1,313	1,313	966
	-	-	9,806	9,806	9,898
Strategic, tactical and currency investments *	-	50	618	668	733
Total investments	$ 16,726	$ 33,094	$ 19,717	$ 69,537	$ 72,562

* 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. This level includes publicly traded listed equity investments totalling $16,726 (2017: $18,124).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $33,094 (2017: $34,092). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $19,717 (2017: $20,346).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2018	2017
Balance, beginning of year	$ 20,346	$ 21,543
Investment income *	956	2,342
Purchases of Level 3 pooled fund units	1,538	4,720
Sale of Level 3 pooled fund units	(3,123)	(8,259)
Balance, end of year	**$ 19,717**	**$ 20,346**

* Investment income includes unrealized losses of ($221) (2017: ($771))

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:

- ***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 timberland 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.
- ***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 and 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, 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, Minister of Finance has established the following target policy asset mix:

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2018			Actual Asset Mix 2017		
			($ thousands)	%		($ thousands)	%
Money market and fixed income	35 - 55%	$	33,974	48.8	$	34,026	46.9
Equities	20 - 58%		25,089	36.1		27,905	38.5
Inflation sensitive and alternatives	7 - 20%		9,806	14.1		9,898	13.6
Strategic, tactical and currency	(a)		668	1.0		733	1.0
		$	69,537	100.0	$	72,562	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.

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.

The following table summarizes the Plan's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	92.6%	93.8%
Speculative Grade (BB+ or lower)	0.6%	0.3%
Unrated	6.8%	5.9%
	100.0%	100.0%

Other Information

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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, 2018, the Plan's share of securities loaned under this program is $4,952 (2017: $5,667) and collateral held totals $5,304 (2017: $5,959). 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 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% (2017: 24%) of the Plan's investments, or $16,143 (2017: $17,350), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 12% (2017: 13%) and the Euro, 3% (2017: 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 Plan would be approximately 2.3% (2017: 2.4%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2018:

	($ thousands)			
	2018		2017	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 8,208	$ (821)	$ 9,134	$ (913)
Euro	1,760	(176)	2,025	(203)
Japanese yen	1,222	(122)	1,285	(129)
British pound	880	(88)	944	(94)
Other foreign currency	4,073	(407)	3,962	(396)
Total foreign currency investments	$ 16,143	$ (1,614)	$ 17,350	$ (1,735)

(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 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 3.3% (2017: 3.0%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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 4.5% (2017: 4.5%) of total investments. 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 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 payables related to the purchase of 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.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2018	2017
Contracts in net favourable position (current credit exposure)	58	$ 560	$ 447
Contracts in net unfavourable position	21	(694)	(325)
Net fair value of derivative contracts	79	$ (134)	$ 122

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 $560 (2017: $447) 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	2018	2017
Structured equity replication derivatives	$ (163)	$ 102
Foreign currency derivatives	(241)	(57)
Interest rate derivatives	250	18
Credit risk derivatives	20	59
Net fair value of derivative contracts	$ (134)	$ 122

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Structured equity replication derivatives: Equity index swaps 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 index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii. Foreign currency derivatives: 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: 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. Deposits: At March 31, 2018 deposits in futures contracts margin accounts totaled $189 (2017: $67) and deposits as collateral for derivative contracts totaled $35 (2017: $15).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2017 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2018.

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 Deputy Minister of the Public Service Commission.

The major assumptions used were:

	%	
	2018 Extrapolation	**2017 Valuation**
Interest discount rate (net of investment and administrative expenses)	4.3	4.3
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.

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 4.3% (2017: 4.3%). 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% (2017: 35%) 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, 2018. 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 2019.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2018, based on the extrapolation performed from the December 31, 2017 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 $0.8 million (2017: $0.8 million).

NOTE 6 SURPLUS

	($ thousands) 2018	2017
Surplus at beginning of year	$ 31,439	$ 29,246
(Decrease) increase in net assets available for benefits	(3,191)	1,479
Net decrease in benefit obligation	1,557	714
Surplus at end of year	$ 29,805	$ 31,439

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	2018 Total	2017 Total
Money market and fixed income	$ 1,248	$ (618)	$ 630	$ 1,174
Equities				
Canadian	347	(102)	245	1,268
Foreign	2,283	(113)	2,170	3,621
Private	(66)	163	97	11
	2,564	(52)	2,512	4,900
Inflation sensitive and alternatives				
Real estate	209	321	530	368
Infrastructure	400	(136)	264	267
Timberland	100	77	177	116
	709	262	971	751
Strategic, tactical and currency investments	162	(31)	131	10
	$ 4,683	$ (439)	$ 4,244	$ 6,835

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 $452 and ($865) respectively (2017: $1,279 and ($258) respectively). Realized and unrealized gains and losses on currency hedges total $35 and ($61) respectively (2017: ($26) and $18 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) 2018	2017
Amount charged by AIMCo for:		
Investment costs [a]	$ 245	$ 264
Performance based fees [a]	81	65
	326	329
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 338	$ 341
Decrease in expenses	(0.9%)	0.0%
Decrease in average investments under management	(1.1%)	(1.9%)
Increase in value of investments attributed to AIMCo	1.0%	1.6%
Investment expense as a percent of:		
Dollar earned	8.0%	5.0%
Dollar invested	0.5%	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.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands) 2018	2017
General administration costs		
Salaries and related expenses	$ 112	$ 111
Actuarial fees	63	50
Supplies and services	32	31
	$ 207	$ 192

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.

	2018	2017	2016	2015	2014
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	4.7	8.0	(0.1)	12.9	12.6
Value added return by investment manager	1.0	1.6	1.7	(1.4)	0.7
Time weighted rate of return, at fair value [(a)]	**5.7**	**9.6**	**1.6**	**11.5**	**13.3**
Other sources [(b)]	(10.1)	(7.5)	(7.3)	(1.3)	(0.7)
Per cent change in net assets [(c)]	**(4.4)**	**2.1**	**(5.7)**	**10.2**	**12.6**
Per cent change in benefit obligation [(c)]	**(3.8)**	**(1.7)**	**(2.7)**	**(3.1)**	**4.5**
Per cent of benefit obligation supported by net assets	**176**	**177**	**170**	**176**	**154**

(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 8.3% (PBR: 7.5%), ten years is 6.4% (PBR: 6.1%) and since inception is 6.2% (PBR: 5.8%).

(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 $ 29,805 (2017: surplus of $31,439) 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 (2017: 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 (2017: $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 2018 presentation.

NOTE 14 APROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of the Public Service Commission and the Senior Financial Officer on May 31, 2018.

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LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2017

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance and
the Local Authorities Pension Plan Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Local Authorities Pension Plan, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Local Authorities Pension Plan as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

April 20, 2018
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2017

	($ thousands) 2017	2016
Net assets available for benefits		
Assets		
Investments (Note 3)	$42,719,090	$37,699,945
Contributions receivable		
Employers	33,159	20,017
Employees	31,069	18,927
Receivable for investments sales	-	36,536
Accounts receivable	35,274	36,500
Total Assets	42,818,592	37,811,925
Liabilities		
Accounts payable	75,077	49,883
Liability for investment purchases and expenses	15,000	39,099
Total Liabilities	90,077	88,982
Net assets available for benefits	$ 42,728,515	$ 37,722,943
Pension obligation and surplus or deficit		
Pension obligation (Note 5)	$37,893,000	$38,360,300
Surplus (Deficit) (Note 6)	4,835,515	(637,357)
Pension obligation and surplus or deficit	$42,728,515	$37,722,943

The accompanying notes are part of these financial statements.

Other Information

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in assets		
Contributions (Note 7)	$ 2,654,790	$ 2,592,882
Investment income (Note 8)	4,124,529	2,235,919
Transfers from other plans	9,178	9,642
	6,788,497	4,838,443
Decrease in assets		
Benefit payments (Note 10)	1,502,853	1,311,067
Transfers to other plans	7,635	11,047
Investment expenses (Note 11)	233,387	174,157
Administrative expenses (Note 12)	39,050	38,813
	1,782,925	1,535,084
Increase in net assets	5,005,572	3,303,359
Net assets available for benefits at beginning of year	37,722,943	34,419,584
Net assets available for benefits at end of year	$ 42,728,515	$ 37,722,943

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 2,160,000	$ 2,027,700
Benefits earned	1,825,200	1,733,200
Net transfers	1,500	-
Net increase due to actuarial assumption changes (Note 5a)	-	701,300
	3,986,700	4,462,200
Decrease in pension obligation		
Net decrease due to actuarial assumption changes (Note 5a)	2,831,200	-
Net experience gains (Note 5b)	78,700	95,800
Benefits, transfers and interest	1,544,100	1,349,100
	4,454,000	1,444,900
Net (decrease) increase in pension obligation	(467,300)	3,017,300
Pension obligation at beginning of year	38,360,300	35,343,000
Pension obligation at end of year (Note 5)	$ 37,893,000	$ 38,360,300

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2017

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Local Authorities Pension Plan* Alberta Regulation 366/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556. The President of Treasury Board, Minister of Finance is the legal trustee of the Plan and Alberta Treasury Board and Finance is management of the Plan for purposes of these financial statements. The Local Authorities Pension Plan Board of Trustees (the Board) has certain statutory functions with respect to the Plan, including but not limited to setting general policy guidelines on investment and management of the Plan's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and making recommendations for Plan rule amendments. The Alberta Local Authorities Pension Plan Corp. (ALAPP Corp.) supports the Board's functions and provides high level strategic guidance to the Plan.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employers and employees at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2017 were 10.39% (2016: 10.39%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.84% (2016: 14.84%) of pensionable earnings over the YMPE for employees, and 11.39% (2016: 11.39%) of pensionable earnings up to the YMPE and 15.84% (2016 15.84%) of pensionable earnings over the YMPE for employers. Pensionable earnings is subject to a limit (the salary cap) to ensure the pension accrual is not greater than the maximum pension benefit limit allowed under the *Income Tax Act*. In 2017, the pensionable earnings limit was $162,312 (2016: $160,970).

The contribution rates were reviewed by the Board in 2017 and, as a result, contribution rates were reduced effective January 1, 2018. The contribution rates in effect from January 1, 2018 are 9.39% of pensionable earnings up to the YMPE and 13.84% of pensionable earnings over the YMPE for employees, and 10.39% of pensionable earnings up to the YMPE and 14.84% of pensionable earnings over the YMPE for employers. Rates are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the average salary over the average YMPE, up to the average salary cap for the same period. The maximum pensionable service that can be credited under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of pensionable service equals at least 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of membership or pensionable service.

d) DISABILITY PENSIONS

Pensions may be payable to members who become totally disabled and retire early with at least two years of membership or pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of membership or pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of membership or pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where membership or pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership or pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any Purchased Service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership or pensionable service receive a refund of their contributions and interest. These payments are included as benefit payments on the statement of changes in net assets available for benefits.

g) PURCHASED SERVICE AND TRANSFERS

All Purchased 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 increase is prorated for pensions that became payable within the 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) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) 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 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.

d) 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.

e) 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.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at the beginning of the year, the results of which are then extrapolated to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) The estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The 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]			2017	2016
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Deposits and short-term securities	$ -	$ 275,619	$ -	$ 275,619	$ 470,535
Bonds, mortgages and private debt	-	11,976,659	1,652,696	13,629,355	10,580,889
	-	12,252,278	1,652,696	13,904,974	11,051,424
Inflation sensitive and alternatives					
Real estate	-	-	5,144,234	5,144,234	4,710,660
Real return bonds	-	551,659	-	551,659	1,743,228
Infrastructure	-	-	3,069,267	3,069,267	2,320,542
Timberland	-	-	504,126	504,126	425,824
	-	551,659	8,717,627	9,269,286	9,200,254
Short horizon					
Canadian equities	2,793,383	213,947	660,873	3,668,203	4,193,071
Global developed equities	7,033,092	781,302	2,083,250	9,897,644	9,294,903
Emerging market equities	1,871,281	143,153	442,717	2,457,151	1,297,110
Small cap equity	2,135,009	-	-	2,135,009	1,270,489
	13,832,765	1,138,402	3,186,840	18,158,007	16,055,573
Long horizon					
Private equities	-	-	1,087,897	1,087,897	1,088,988
Strategic, tactical and currency investments *	-	38,518	260,408	298,926	303,706
Total investments	$ 13,832,765	$ 13,980,857	$ 14,905,468	$42,719,090	$37,699,945

* 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. This level includes publicly traded listed equity investments totaling $13,832,765 (2016: $11,442,974).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totaling $13,980,857 (2016: $13,130,020). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totaling $14,905,468 (2016: $13,126,951).

NOTE 3 INVESTMENTS CONTINUED

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2017	**2016**
Balance, beginning of year	$13,126,951	$ 12,179,345
Investment income *	958,265	646,166
Purchases of Level 3 pooled fund units	4,606,931	2,314,456
Sale of Level 3 pooled fund units	(3,786,679)	(2,013,016)
Balance, end of year	$14,905,468	$ 13,126,951

* Investment income includes unrealized losses of $410,156 (2016: $387,314).

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:

- ***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.
- ***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 timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Short horizon:*** 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.
- ***Long horizon***: 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.
- ***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 and 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 Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan’s return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 2017		Actual Asset Mix 2016	
		($ thousands)	*%*	*($ thousands)*	*%*
Fixed income	20 - 40%	$13,904,974	32.6	$11,051,424	29.3
Inflation sensitive and alternatives	20 - 50%	9,269,286	21.7	9,200,254	24.4
Short horizon	25 - 50%	18,158,007	42.5	16,055,573	42.6
Long horizon	3 - 9%	1,087,897	2.5	1,088,988	2.9
Strategic, tactical and currency investments	(a)	298,926	0.7	303,706	0.8
		$42,719,090	100.0	$37,699,945	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% 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.

The table below summarizes the Plan's investments in debt securities by credit rating at December 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	87.6%	90.8%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	12.2%	9.2%
	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 December 31, 2017, the Plan's share of securities loaned under this program is $5,556,675 (2016: $4,373,975) and collateral held totals $5,992,058 (2016: $4,633,352). 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 33% (2016: 29%) of the Plan's investments, or $14,303,578 (2016: $11,045,087), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 16% (2016: 16%) and the Euro, 3% (2016: 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 Plan would be approximately 3.3% of total investments (2016: 2.9%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2017:

	($ thousands)			
	2017		2016	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 6,872,683	$ (687,268)	$ 5,894,661	$ (589,466)
Euro	1,485,262	(148,526)	1,103,537	(110,354)
Japanese yen	1,104,334	(110,433)	858,556	(85,856)
British pound	869,569	(86,957)	619,024	(61,902)
Hong Kong dollar	624,426	(62,443)	319,973	(31,997)
South Korean won	428,209	(42,821)	224,173	(22,417)
Other foreign currency	2,919,095	(291,910)	2,025,163	(202,517)
Total foreign currency investments	$ 14,303,578	$ (1,430,358)	$ 11,045,087	$ (1,104,509)

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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 3.5% of total investments (2016: 3.8%).

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 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 (2016: 5.3%).

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	**2017**	**2016**
Contracts in net favourable position (current credit exposure)	65	$ 515,478	$ 194,786
Contracts in net unfavourable position	11	(230,830)	(81,153)
Net fair value of derivative contracts	76	$ 284,648	$ 113,633

Other Information

(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 $515,478 (2016: $194,786) 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	**2017**	**2016**
Structured equity replication derivatives	$ 99,141	$ 91,979
Foreign currency derivatives	64,693	18,664
Interest rate derivatives	108,235	(10,652)
Credit risk derivatives	12,579	13,642
Net fair value of derivative contracts	$ 284,648	$ 113,633

(i) Structured equity replication derivatives: 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: 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: 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) Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $47,239 (2016: $81,967) and deposits as collateral for derivative contracts totalled $1,384 (2016: $9,816).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2016 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the pension obligation of $37,893,000 (2016: $38,360,300) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate	6.00	5.50
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector) with a LAPP specific multiplier	

* In addition to age specific merit and promotion increase assumptions.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2017 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2018.

b) NET EXPERIENCE GAINS

Net experience gains of $78,700 (2016: $95,800) arose from differences between the actuarial assumptions used in the 2016 valuation and 2017 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2017:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings (1)
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	2,776,115	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	1,815,015	1.4
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	5,882,915	3.2

(1) The current service cost as a percentage of pensionable earnings as determined by the December 31, 2017 extrapolation was 15.83%.

NOTE 6 SURPLUS (DEFICIT)

	($ thousands) 2017	2016
Deficit at beginning of year	$ (637,357)	$ (923,416)
Increase in net assets available for benefits	5,005,572	3,303,359
Net decrease (increase) in pension obligation	467,300	(3,017,300)
Surplus (Deficit) at end of year	$ 4,835,515	$ (637,357)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2017	2016
Current service		
Employers	$ 1,364,992	$ 1,330,104
Employees	1,258,264	1,227,828
Past service		
Employers	7,689	11,405
Employees	23,845	23,545
	$ 2,654,790	$ 2,592,882

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	2017 Total	2016 Total
Fixed Income	$ 576,412	$ 65,332	$ 641,744	$ 274,046
Inflation sensitive and alternatives				
Real estate	298,414	165,142	463,556	224,331
Real return bonds	93,271	(97,630)	(4,359)	58,071
Infrastructure	233,898	(11,956)	221,942	173,879
Timberland	43,248	28,530	71,778	41,184
	668,831	84,086	752,917	497,465
Short horizon				
Canadian equities	159,032	225,944	384,976	693,160
Foreign equities	1,964,160	310,513	2,274,673	774,294
	2,123,192	536,457	2,659,649	1,467,454
Long horizon				
Private equities	127,948	(81,808)	46,140	230
Strategic, tactical and currency investments	45,800	(21,721)	24,079	(3,276)
	$ 3,542,183	$ 582,346	$ 4,124,529	$ 2,235,919

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 $724,974 and $(141,882) respectively (2016: $121,732 and $(535,286) respectively). Realized and unrealized gains and losses on currency hedges total $(344) and $(402) respectively (2016: $(54,929) and $49,183 respectively).

NOTE 8 INVESTMENT INCOME CONTINUED

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 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:

	2017	2016	2015	2014	2013
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.0	6.0	6.7	12.9	11.0
Value (lost) added by AIMCo	1.1	(0.2)	1.2	(1.5)	0.3
Time weighted rate of return, at fair value [(a)]	**10.1**	**5.8**	**7.9**	11.4	11.3
Other sources [(b)]	3.2	3.8	3.9	4.6	4.8
Per cent change in net assets [(c)]	**13.3**	**9.6**	**11.8**	**16.0**	**16.1**
Per cent change in pension obligation [(c)]	**(1.2)**	**8.5**	**6.3**	**5.8**	**12.8**
Per cent of pension obligation supported by net assets	**113**	**98**	**97**	**93**	**85**

(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 9.3% (PBR: 9.1%), ten years is 6.6% (PBR: 7.0%) and twenty years is 7.2% (PBR: 7.2%). The actuarial funding valuation of the Plan as at December 31, 2017 includes an estimate of the long-term net investment return on assets, less a margin for adverse deviation, of 5.30% (2016: 5.25%).

(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)	
	2017	**2016**
Retirement benefits	$ 1,094,749	$ 1,005,634
Disability pensions	8,542	8,315
Termination benefits	321,585	240,330
Death benefits	77,977	56,788
	$ 1,502,853	$ 1,311,067

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2017	2016
Amounts charged by AIMCo for:		
Investment costs [a]	$ 179,655	$ 152,257
Performance based fees [a]	44,212	16,432
GST [b]	9,468	5,416
	233,335	174,105
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 233,387	$ 174,157
Increase (decrease) in expenses [a]	34.0%	(7.2%)
Increase in average investments under management	11.7%	10.8%
Increase (decrease) in value of investments attributed to AIMCo	1.1%	(0.2%)
Investment expense as a per cent of:		
Dollar earned	5.7%	7.8%
Dollar invested	0.6%	0.5%
Investment expenses per member	$ 899	$ 686

(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 increase (decrease) in investment costs and performance based fees is 32.7% (2016: (7.7%)).

(b) GST includes $2,156 (2016: $nil) which was recorded as a receivable in prior years but determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2017	2016
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 36,482	$ 36,466
Alberta Local Authorities Pension Plan Corporation (ALAPP Corp.)	2,350	2,182
Actuarial fees	218	165
	39,050	38,813
Member service expenses per member	$ 150	$ 153

General administration costs and process improvement costs, including the Board costs were paid to APS and ALAPP Corp. on a cost-recovery basis.

NOTE 12 ADMINISTRATIVE EXPENSES CONTINUED

The Plan's share of APS's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board, Minister of Finance.

ALAPP Corp. costs include remuneration to senior officials and the Board members as follows:

($ thousands)

	2017				2016
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair	$ -	$ -	$ -	$ -	$ -
Corporation Board Members (excluding Chair)	-	81	-	81	68
President & Chief Executive Officer	248	68	60	376	377
Vice-Presidents:					
Investment Policy & Risk Mgmt [(d)]	148	25	32	205	215
Pension Policy & Funding [(e)]	160	31	38	229	222
Stakeholder Relations & Communications	157	29	36	222	231

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria. Board members only receive remuneration pay. Remuneration is paid in accordance with the fee structure approved by the Minister of Finance.

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

(d) Base salary is from actual start date, and does not encompass an entire year of base pay. In 2016, the position was a .8 FTE and is now a full time FTE.

(e) For 11 months salary in 2017.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $272,437 (2016: $212,970) or $1,049 (2016: $839) per member and 0.64% (2016: 0.56%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's 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 value for funding valuation purposes amounted to $41,048,800 at December 31, 2017 (2016: $37,684,400).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency as determined by actuarial funding valuations is being funded by special payments in 2017 totaling 6.49% of pensionable earnings shared equally between employers and employees. A declining schedule of equally shared special payments applies until December 31, 2031. The first reduction takes effect on January 1, 2018, at which point the special payments will be 4.61% of pensionable earnings. The special payments have been included in the rates in effect at December 31, 2017 (see Note 1b).

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, ALAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

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MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2017

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

April 20, 2018
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2017

	($ thousands) 2017	2016
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,033,661	$ 4,606,962
Contributions receivable		
Employers	4,631	4,985
Employees	3,449	2,987
Receivable for investment sales	2,500	5,000
Accounts receivable	1,092	1,891
Total Assets	5,045,333	4,621,825
Liabilities		
Accounts payable	6,738	4,016
Liabilities for investment purchases	-	5,659
Total Liabilities	6,738	9,675
Net assets available for benefits	$ 5,038,595	$ 4,612,150
Pension obligation and surplus		
Pension obligation (Note 5)	$ 4,172,589	$4,210,117
Surplus (Note 6)	866,006	402,033
Pension obligation and surplus	$ 5,038,595	$ 4,612,150

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

	2017 ($ thousands)	2016 ($ thousands)
Increase in Assets		
Contributions (Note 7)	$ 191,008	$ 210,623
Investment income (Note 8)	494,101	305,972
Transfers from other plans, net	3,998	5,846
	689,107	522,441
Decrease in Assets		
Benefit payments (Note 10)	231,456	206,614
Investment expenses (Note 11)	28,727	25,603
Administrative expenses (Note 12)	2,479	2,470
	262,662	234,687
Increase in net assets	426,445	287,754
Net assets available for benefits at beginning of year	4,612,150	4,324,396
Net assets available for benefits at end of year	$ 5,038,595	$ 4,612,150

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 250,011	$ 246,554
Benefits earned	138,984	133,781
Net experience losses (Note 5b)	-	49,043
	388,995	429,378
Decrease in pension obligation		
Benefits, transfers and interest	227,458	200,768
Net decrease due to actuarial assumption changes (Note 5a)	199,065	43,838
	426,523	244,606
Net (decrease) increase in pension obligation	(37,528)	184,772
Pension obligation at beginning of year	4,210,117	4,025,345
Pension obligation at end of year (Note 5)	$ 4,172,589	$ 4,210,117

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2017

(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, 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 the Plan's 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, 2017 were 12.80% (2016: 12.80%) of the capped salary for employees and 17.20% (2016: 21.85%) 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, 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 salary of the highest five consecutive years. 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.

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

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 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 Purchased Service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund.

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 Purchased Service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) 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 losses 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 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.

d) 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.

e) 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.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

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]			2017	2016
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 22,817	$ -	$ 22,817	$ 29,455
Bonds, mortgages and private debt	-	696,709	234,681	931,390	842,483
	-	719,526	234,681	954,207	871,938
Equities					
Canadian	525,556	39,735	124,339	689,630	653,096
Foreign	1,353,964	142,785	425,982	1,922,731	1,749,891
Private	-	-	207,928	207,928	224,584
	1,879,520	182,520	758,249	2,820,289	2,627,571
Inflation sensitive					
Real estate	-	-	385,546	385,546	364,015
Infrastructure	-	-	332,447	332,447	242,640
Timberland	-	-	2,050	2,050	-
Real return bonds	-	488,325	-	488,325	447,799
	-	488,325	720,043	1,208,368	1,054,454
Strategic, tactical and currency investments *	-	4,938	45,859	50,797	52,999
Total investments	$ 1,879,520	$ 1,395,309	$ 1,758,832	$ 5,033,661	$ 4,606,962

* 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. This level includes publicly traded listed equity investments totalling $1,879,520 (2016: $1,542,907).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $1,395,309 (2016: $1,347,852). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $1,758,832 (2016: $1,716,203).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2017	**2016**
Balance, beginning of year	$ 1,716,203	$ 1,742,628
Investment income *	112,648	97,502
Purchases of Level 3 pooled fund units	582,143	208,537
Sale of Level 3 pooled fund units	(652,162)	(332,464)
Balance, end of year	$ 1,758,832	$ 1,716,203

* Investment income includes unrealized losses of $82,804 (2016: $54,296).

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:

- ***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.

NOTE 3 INVESTMENTS CONTINUED

- ***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 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 and 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 2017		Actual Asset Mix 2016	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	15 - 30%	$ 954,207	19.0	$ 871,938	18.9
Equities	40 - 62%	2,820,289	56.0	2,627,571	57.0
Inflation sensitive	15 - 40%	1,208,368	24.0	1,054,454	22.9
Strategic, tactical and currency investments	(a)	50,797	1.0	52,999	1.2
		$ 5,033,661	100.0	$ 4,606,962	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.

The following table summarizes the Plan's investment in debt securities by credit rating at December 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	84.5%	86.3%
Speculative Grade (BB+ or lower)	0.3%	0.1%
Unrated	15.2%	13.6%
	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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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, 2017, the Plan's share of securities loaned under this program is $552,316 (2016: $374,090) and collateral held totals $597,073 (2016: $396,935). 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 38% (2016: 37%) of the Plan's investments, or $1,890,777 (2016: $1,717,052), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 19% (2016: 20%) and the Euro, 4% (2016: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.8% of total investments (2016: 3.7%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2017:

($ thousands)

	2017		2016	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 971,445	$ (97,145)	$ 904,089	$ (90,409)
Euro	207,624	(20,762)	171,841	(17,184)
Japanese yen	145,466	(14,547)	125,867	(12,587)
British pound	105,272	(10,527)	94,730	(9,473)
Hong Kong dollar	66,758	(6,676)	54,046	(5,404)
Other foreign currency	394,212	(39,421)	366,479	(36,648)
Total foreign currency investments	$1,890,777	$(189,078)	$1,717,052	$(171,705)

(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 2.5% of total investments (2016: 2.6%).

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 6.6% of total investments (2016: 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	**2017**	**2016**
Contracts in net favourable position (current credit exposure)	63	$ 66,688	$ 24,240
Contracts in net unfavourable position	12	(36,819)	(8,553)
Net fair value of derivative contracts	75	$ 29,869	$ 15,687

Other Information

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 $66,688 (2016: $24,240) 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	2017	2016
Structured equity replication derivatives	$ 13,036	$ 13,070
Foreign currency derivatives	9,134	2,706
Interest rate derivatives	5,988	(1,680)
Credit risk derivatives	1,711	1,591
Net fair value of derivative contracts	$ 29,869	$ 15,687

(i) Structured equity replication derivatives: 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: 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: 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) Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $5,209 (2016: $11,180) and deposits as collateral for derivative contracts totalled $(185) (2016: $1,254).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2015 by Aon Hewitt and was then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the pension obligation of $4,172,589 (2016: $4,210,117) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate	6.40	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, 2018. 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 2019.

b) NET EXPERIENCE LOSSES

Net experience losses of $nil (2016: $49,043) reflect the results of the valuation as at December 31, 2015 extrapolated to December 31, 2017

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, 2017:

	($ 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	308,000	1.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	30,900	0.5
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	532,800	3.9

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings is 21.2% at December 31, 2017.

NOTE 6 SURPLUS

	2017 ($ thousands)	2016 ($ thousands)
Surplus at beginning of year	$ 402,033	$ 299,051
Increase in net assets available for benefits	426,445	287,754
Net decrease (increase) in pension obligation	37,528	(184,772)
Surplus at end of year	$ 866,006	$ 402,033

NOTE 7 CONTRIBUTIONS

	2017 ($ thousands)	2016 ($ thousands)
Current service		
Employers	$ 108,867	$ 130,958
Employees	78,949	76,913
Past service		
Employers	595	748
Employees	2,597	2,004
	$ 191,008	$ 210,623

NOTE 8 INVESTMENT INCOME

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

	($ thousands)			
	Income	Changes in Fair Value	2017 Total	2016 Total
Money market and fixed income	$ 43,801	$ (14,862)	$ 28,939	$ 27,378
Equities				
Canadian	31,646	37,648	69,294	115,191
Foreign	288,061	35,378	323,439	110,075
Private	23,208	(18,970)	4,238	11,515
	342,915	54,056	396,971	236,781
Inflation sensitive				
Real estate	22,285	12,478	34,763	17,908
Infrastructure	22,340	(731)	21,609	24,652
Timberland	(79)	(3)	(82)	-
Real return bonds	41,020	(33,249)	7,771	14,608
	85,566	(21,505)	64,061	57,168
Strategic, tactical and currency investments	7,432	(3,302)	4,130	(15,355)
	$ 479,714	$ 14,387	$ 494,101	$ 305,972

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 $93,039 and $(79,027) respectively (2016: $24,111 and $(39,757) respectively). Realized and unrealized gains and losses on currency hedges total $391 and $(16) respectively (2016: $(13,964) and $(634) 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 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:

	2017	2016	2015	2014	2013
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.2	5.8	8.4	12.0	14.9
Value added (lost) by AIMCo	0.9	0.7	2.4	(0.7)	-
Time weighted rate of return, at fair value [(a)]	**10.1**	**6.5**	**10.8**	**11.3**	**14.9**
Other sources [(b)]	(0.8)	0.2	0.5	0.8	1.1
Per cent change in net assets [(c)]	**9.3**	**6.7**	**11.3**	**12.1**	**16.0**
Per cent change in pension obligation [(c)]	**(0.9)**	**4.6**	**5.7**	**11.6**	**3.7**
Per cent of pension obligation supported by net assets	**121**	**110**	**107**	**102**	**101**

(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 10.7% (PBR: 10.0%), ten years is 7.2% (PBR: 7.0%) and twenty years is 7.5% (PBR: 7.3%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 5.5% (2016: 5.5%).

(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)	
	2017	**2016**
Retirement benefits	$ 196,936	$ 186,616
Disability pensions	259	278
Termination benefits	24,879	16,685
Death benefits	9,381	3,035
	$ 231,456	$ 206,614

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2017	2016
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 22,169	$ 21,608
Performance based fees [(a)]	5,356	3,121
GST [(b)]	1,150	822
	28,675	25,551
Amounts charged by Treasury Board and Finance for :		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 28,727	$ 25,603
Increase (decrease) in expenses [(a)]	12.2%	(18.4%)
Increase in average investments under management	8.1%	8.8%
Increase in value of investments attributed to AIMCo	0.9%	0.7%
Investment expenses as a percent of:		
Dollar earned	5.8%	8.4%
Dollar invested	0.6%	0.6%
Investment expenses per member	$ 2,414	$ 2,189

(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 increase (decrease) in investment costs and performance based fees is 11.3% (2016: (18.6%)).

(b) GST includes $244 (2016: $nil) which was recorded as a receivable in prior years but determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2017	2016
General administration costs	$ 2,186	$ 2,126
Board costs	69	51
Actuarial fees	26	161
Other professional fees	198	132
	2,479	2,470
Member service expenses per member	$ 208	$ 211

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, 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 $31,206 (2016: $28,073) or $2,622 (2016: $2,400) per member and 0.62% (2016: 0.61%) 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 $4,737,469 at December 31, 2017 (2016: $4,348,328).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2015 actuarial funding valuation is being funded by special payments currently totalling 10.2% of pensionable earnings shared between employees and employers until December 31, 2016. Thereafter, the special payments will decrease successively to 5.0% until December 31, 2024 and to 2.9% until December 31, 2027.

The special payments have been included in the rates in effect at December 31, 2017 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2017 presentation.

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 Board.

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PROVINCIAL JUDGES AND MASTERS IN CHAMBERS
REGISTERED AND UNREGISTERED PENSION PLANS

Financial Statements

Year Ended March 31, 2018

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Auditor General OF ALBERTA

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan, which comprise the statements of financial position as at March 31, 2018, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan as at March 31, 2018 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

June 7, 2018
Edmonton, Alberta

Statements of Financial Position

As at March 31, 2018

	Registered Plan Note 1a ($ thousands) 2018	2017	Unregistered Plan Note 1a ($ thousands) 2018	2017
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 692	$ 673
Investments (Note 4)	153,256	147,050	-	-
GST receivable	12	17	-	-
Income tax refundable	-	-	11,782	3,335
Due from Reserve Fund (Note 6)	-	-	196,679	189,715
Total assets	153,268	147,067	209,153	193,723
Liabilities				
Accounts payable	70	25	774	123
Total Liabilities	70	25	774	123
Net assets available for benefits	$ 153,198	$ 147,042	$ 208,379	$ 193,600
Pension obligation and (deficit)				
Pension Obligation (Note 7)	141,180	139,466	217,095	209,263
Surplus (Deficit) (Note 8)	12,018	7,576	(8,716)	(15,663)
Pension obligation and (deficit)	$ 153,198	$ 147,042	$ 208,379	$ 193,600

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended March 31, 2018

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2018	2017	2018	2017
Increase in assets				
Contributions (Note 9)	$ 5,268	$ 5,227	$ 2,537	$ 2,605
Investment income (Note 10)	9,947	15,169	24	37
Transfers from the Reserve Fund	-	-	4,740	2,803
Transfer to CRA from the Reserve Fund	-	-	7,981	-
Increase in due from Reserve Fund	-	-	6,964	24,856
	15,215	20,396	22,246	30,301
Decrease in assets				
Benefit payments (Note 12)	8,147	7,983	7,339	6,757
Investment expenses (Note 13)	763	745	23	23
Administrative expenses (Note 14)	149	93	105	85
	9,059	8,821	7,467	6,865
Increase in net assets	6,156	11,575	14,779	23,436
Net assets available for benefits at beginning of year	147,042	135,467	193,600	170,164
Net assets available for benefits at end of year	$ 153,198	$ 147,042	$ 208,379	$ 193,600

Statements of Changes in Pension Obligation

Year ended March 31, 2018

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2018	2017	2018	2017
Increase in pension obligation				
Interest accrued on benefits	$ 7,407	$ 7,334	$ 9,928	$ 9,404
Benefits earned	4,367	4,074	10,237	10,495
Increase due to actuarial assumption changes	-	1,701	-	2,798
Impact of Judical Compensation Commission	-	-	-	-
	11,774	13,109	20,165	22,697
Decrease in pension obligation				
Benefits, transfers and interest	8,147	7,983	7,339	6,757
Decrease due to actuarial assumption changes	-	-	-	-
Net experience gains (losses)	1,913	1,398	4,994	(348)
	10,060	9,381	12,333	6,409
Net increase in pension obligation	1,714	3,728	7,832	16,288
Pension obligation at beginning of year	139,466	135,738	209,263	192,975
Pension obligation at end of year (Note 7)	$ 141,180	$ 139,466	$ 217,095	$ 209,263

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2018

(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 report 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 registered number is 0927764. The Unregistered Plan which provides benefits, to members, in excess of those limits is a Retirement Compensation Arrangement (RCA) under the *Income Tax Act*. The Registered Plan is financed by contributions from members and the Province as well as investment earnings. The Unregistered Plan is also funded by contributions from members and the Province. Due to the tax treatment of the RCA, contributions and investment income 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 Department of Justice and Solicitor General. The President of Alberta Treasury Board, 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, 2018 are 7.00% (2017: 7.00%) of *capped salary* for members and 17.75% (2017: 17.75%) of *capped salary for* the Province. In addition, annual payments by the Province of $933 (2017: $933) are made towards the unfunded liability of the Registered Plan. The rates are reviewed at least once every three years by the Province based on recommendations of the Plan's actuary.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

The Unregistered Plan contribution rates in effect at March 31, 2018 are unchanged at 7.0% of pensionable salary in excess of capped salary for members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed 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 42.86% of salary in excess of capped salary In addition, annual payments by the Province to the Reserve Fund of $2,235 (2017: $2,235) 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 salary of the highest five consecutive years for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable *salary limit*. 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%. The normal pensionable age is 70 years of age.

Together the Registered Plan and Unregistered Plan provide a pension based on 2.0% of a member's highest average salary for years of pensionable service before April 1, 1998; 2.67% of a member's highest average for years of pensionable service between April 1, 1998 to March 21, 2000 and 3.0% of a member's highest average 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 if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members from December 31 in the year the member attained age 71.

d) DISABILITY PENSIONS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

g) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province 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 increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. 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) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) 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 the Province of Alberta and the third party to the contracts. Participants in the pools are not party to

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 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.

d) 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.

e) 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.

f) 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 valuation and extrapolation dates, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the 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, timberland 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, timberland 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.

h) 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, 2018, securities held by the CCITF have a time weighted rate of return of 1.1% per annum (2017: 0.9% 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)

	Fair Value Hierarchy [(a)]			2018	2017
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income securities					
Deposits and short-term securities	$ -	$ 1,880	$ -	$ 1,880	$ 1,028
Bonds, mortgages and private debt	-	48,418	5,412	53,830	51,292
	-	50,298	5,412	55,710	52,320
Equities					
Canadian	17,489	1,100	4,482	23,071	23,479
Global	27,932	2,289	9,487	39,708	40,329
	45,421	3,389	13,969	62,779	63,808
Inflation sensitive					
Real estate	-	-	23,049	23,049	21,473
Infrastructure	-	-	9,186	9,186	7,534
Timberland	-	-	732	732	1
	-	-	32,967	32,967	29,008
Strategic and currency investments*	-	5	1,795	1,800	1,914
Total investments	$ 45,421	$ 53,692	$ 54,143	$ 153,256	$ 147,050

* 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. This level includes publicly traded listed equity investments totalling $45,421 (2017: $45,185).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $53,692 (2017: $52,497). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, and inflation sensitive investments totalling $54,143 (2017: $49,368).

Reconciliation of Level 3 Investments

	($ thousands) 2018	2017
Balance, beginning of year	$ 49,368	$ 47,103
Investment income *	3,583	5,115
Purchases of Level 3 pooled fund units	6,996	13,613
Sale of Level 3 pooled fund units	(5,804)	(16,463)
Balance, end of year	$ 54,143	$ 49,368

* Investment income includes unrealized gains (losses) of $800 (2017: ($983)).

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:

- ***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 are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

NOTE 4 INVESTMENTS CONTINUED

- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. 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 and 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 2018 ($ thousands)	2018 %	2017 ($ thousands)	2017 %
Fixed income securities	30 - 45%	$ 55,710	36.3	$ 52,320	35.6
Equities	30 - 50%	62,779	41.0	63,808	43.4
Inflation sensitive	15 - 35%	32,967	21.5	29,008	19.7
Strategic and currency investments	(a)	1,800	1.2	1,914	1.3
		$ 153,256	100.0	$ 147,050	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.

The following table summarizes the Registered Plan's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	89.4%	91.3%
Speculative Grade (BB+ or lower)	0.6%	0.3%
Unrated	10.0%	8.4%
	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 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

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

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, 2018, the Registered Plan's share of securities loaned under this program is $9,437 (2017: $10,478) and collateral held totals $10,098 (2017: $11,049). 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 28% (2017: 27%) of the Registered Plan's investments, or $42,776 (2017: $40,130), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 14% (2017: 14%) and the Euro, 3% (2017: 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 2.8% of total investments (2017: 2.7%).

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2018:

	($ thousands)			
	2018		**2017**	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 21,205	$ (2,121)	$ 21,226	$ (2,123)
Euro	5,270	(527)	4,600	(460)
British pound	3,245	(324)	2,112	(211)
Japanese yen	2,936	(294)	2,889	(289)
Other foreign currency	10,120	(1,012)	9,303	(930)
Total foreign currency investments	$ 42,776	$ (4,278)	$ 40,130	$ (4,013)

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

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 2.5% (2017: 2.3%) 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 5.0% of total investments (2017: 4.9%). 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 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	**2018**	**2017**
Contracts in net favourable position (current credit exposure)	57	$ 1,470	$ 858
Contracts in net unfavourable position	20	(2,049)	(468)
Net fair value of derivative contracts	77	$ (579)	$ 390

(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 $1,470 (2017: $858) were to default at once.

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

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

(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	2018	2017
Structured equity replication derivatives	$ (376)	$ 243
Foreign currency derivatives	(655)	19
Interest rate derivatives	411	30
Credit risk derivatives	41	98
Net fair value of derivative contracts	$ (579)	$ 390

(i) Structured equity replication derivatives: 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: 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: 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) Deposits: At March 31, 2018 deposits in futures contracts margin accounts totalled $364 (2017: $149) and deposits as collateral for derivative contracts totalled $47 (2017: $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)	
	2018	2017
Interest-bearing securities	$ 90,302	$ 80,491
Public equities	80,781	79,307
Alternatives	33,019	28,098
Strategic currency investments	1,703	1,819
Accrued payable - owing to CRA	(9,126)	-
	$ 196,679	$ 189,715

During the year, net assets of the Reserve Fund increased by $6,964 (2017 $24,856), comprised of employer contributions of $9,937 (2017: $10,063), investment income of $11,716 (2017: $18,370) less investment expenses of $822 (2017: $774), less interest expenses of $1,146 and transfers of $12,721 (2017: $2,803).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

Actuarial valuations of both plans were carried out as at March 31, 2017 by Aon Hewitt and the results were then extrapolated to March 31, 2018. The next valuations of the plans will be carried out as at March 31, 2020. 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 2021.

The Registered Plan

The actuarial assumptions used in determining the value of the pension obligation of $141,180 (2017: $139,466) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, 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:

	2018 %	2017 %
Discount rate	5.30	5.30
Inflation rate	2.00	2.00
Salary escalation rate	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2018 to determine the pension obligation of $217,095 (2017: 209,263) 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 4.6% per annum (2017: 4.6%).

NET EXPERIENCE GAINS (LOSSES)

The Registered Plan net experience gains of $1,913(2017: $1,398) reflect the results of the valuation as at March 31, 2017 extrapolated to March 31, 2018.

The Unregistered Plan net experience gains of $4,994 (2017: losses of $348) reflect the results of the valuation as at March 31, 2017 extrapolated to March 31, 2018.

NOTE 7 PENSION OBLIGATION CONTINUED

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, 2018:

	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%	$12.3	2.9%
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%)	$16.9	5.1%

* 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, 2018:

	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%	$23.4	6.9%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$8.1	5.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$31.9	12.3%

* As a % of excess pensionable earnings

NOTE 8 SURPLUS (DEFICIT)

	Registered Plan ($ thousands) 2018	Registered Plan ($ thousands) 2017	Unregistered Plan ($ thousands) 2018	Unregistered Plan ($ thousands) 2017
(Deficit) surplus at beginning of year	$ 7,576	$ (271)	$ (15,663)	$ (22,811)
Increase in net assets available for benefits	6,156	11,575	14,779	23,436
Net increase in pension obligation	(1,714)	(3,728)	(7,832)	(16,288)
Surplus (deficit) at end of year	$ 12,018	$ 7,576	$ (8,716)	$ (15,663)

NOTE 9 CONTRIBUTIONS

	Registered Plan ($ thousands) 2018	Registered Plan ($ thousands) 2017	Unregistered Plan ($ thousands) 2018	Unregistered Plan ($ thousands) 2017
Current service				
Employer	$ 3,110	$ 3,085	$ 1,268	$ 1,302
Employees	1,225	1,209	1,269	1,303
Province of Alberta	933	933	-	-
	$ 5,268	$ 5,227	$ 2,537	$ 2,605

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	2018 Total	2017 Total
Fixed income securities	$ 1,981	$ (952)	$ 1,029	$ 1,764
Equities				
Canadian	1,059	(299)	760	3,678
Foreign	5,226	(243)	4,983	8,012
	6,285	(542)	5,743	11,690
Inflation sensitive				
Real estate	936	1,206	2,142	1,224
Infrastructure	861	(109)	752	468
Timberland	(7)	6	(1)	-
	1,790	1,103	2,893	1,692
Strategic and currency investments	357	(75)	282	23
	$ 10,413	$ (466)	$ 9,947	$ 15,169

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 $884 and ($1,342) respectively (2017: $2,340 and $1,329 respectively). Realized and unrealized gains and losses on currency hedges total ($5) and ($3) respectively (2017: ($48) and $54 respectively).

Other Information

NOTE 10 INVESTMENT INCOME CONTINUED

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 $24 (2017: $37).

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of the Registered Plan's 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:

	2018	2017	2016	2015	2014
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	5.2	9.5	0.1	13.1	13.4
Value added (lost) by AIMCo	1.1	1.3	1.8	(0.4)	1.1
Time weighted rate of return, at fair value [(a)]	**6.3**	**10.8**	**1.9**	**12.7**	**14.5**
Other sources [(b)]	(2.1)	(2.3)	(2.1)	(3.0)	(2.9)
Per cent change in net assets [(c)]	**4.2**	**8.5**	**(0.2)**	**9.7**	**11.6**
Per cent change in pension obligation [(c)]	**1.2**	**2.7**	**1.5**	**6.6**	**11.0**
Per cent of pension obligation supported by net assets	**109**	**105**	**100**	**101**	**99**

(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 9.1% (PBR: 8.2%), ten years is 7.0% (PBR: 6.5%) and 20 years is 6.6% (PBR: 6.1%).

(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:

	2018	2017	2016	2015	2014
			in per cent		
Per cent change in net assets [(a)]	**7.6**	**13.8**	**6.0**	**14.7**	**17.9**
Per cent change in pension obligation [(a)]	**3.7**	**8.4**	**8.8**	**15.6**	**15.8**
Per cent of pension obligation supported by net assets	**96**	**93**	**88**	**90**	**91**

(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) 2018	Registered Plan ($ thousands) 2017	Unregistered Plan ($ thousands) 2018	Unregistered Plan ($ thousands) 2017
Retirement benefits	$ 7,710	$ 7,534	$ 7,043	$ 6,448
Death benefits	421	417	279	276
Termination Benefits	16	32	17	33
	$ 8,147	$ 7,983	$ 7,339	$ 6,757

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands) 2018	($ thousands) 2017
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 613	$ 561
Performance based fees [(a)]	96	118
GST	23	35
	732	714
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	31	31
Total investment expenses	$ 763	$ 745
Increase in expenses	2.4%	5.7%
Increase in average investments under management	6.3%	4.2%
Increase in value of investments attributed to AIMCo	1.1%	1.3%
Investment expense as a percent of:		
Dollar earned	7.7%	4.9%
Dollar invested	0.5%	0.5%
Investment expenses per member	$ 2,587	$ 2,587

(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 4.4% (2017: 3.8%).

The Unregistered Plan investment expenses amounted to $23 (2017: $23) or $85 (2017: $85) per member.

Other Information

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2018	2017	2018	2017
General administration costs	$ 122	$ 83	$ 85	$ 79
Actuarial fees	20	8	20	6
Other fees	7	2	-	-
	149	93	105	85
Member service expenses per member	$ 506	$ 323	$ 382	$ 313

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 $913 (2017: $838) or $3,093 (2017: $2,910) per member and 0.60% (2017: 0.57%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $128 (2017: $108) or $467 (2017: $398) per member and 0.06% (2017: 0.06%) 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 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2018 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan Advisory Committee.

SCHEDULE A

SCHEDULE OF THE PROVINCIAL JUDGES AND MASTER IN CHAMBERS (REGISTERED) PENSION PLAN 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, 2018	March 31, 2017
Net assets available for benefits - Registered Plan	$ 153,198	$ 147,042
Net assets available for benefits - Unregistered Plan *	208,379	193,600
	361,577	340,642
Pension Obligation - Registered Plan	141,180	139,466
Pension Obligation - Unregistered Plan	217,095	209,263
	358,275	348,729
Deficiency of aggregate assets over aggregate accrued benefits	$ 3,302	$ (8,087)

* Includes due from Reserve Fund for 2018 $196,679 (2017: $189,715)

Other Information

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2017

Auditor General
OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation, for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

April 20, 2018
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2017

	($ thousands) 2017	2016
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 6,554	$ 7,862
Accounts receivable	236	257
Total Assets	6,790	8,119
Liabilities		
Accounts payable	18	8
Total Liabilites	18	8
Net assets available for benefits	$ 6,772	$ 8,111
Pension obligation and deficit		
Pension obligation (Note 3)	$ 520,110	$ 545,479
Deficit (Note 4)	(513,338)	(537,368)
Pension obligation and deficit	$ 6,772	$ 8,111

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in assets		
Contributions from the Province of Alberta	$ 48,000	$ 49,500
Investment income	81	90
	48,081	49,590
Decrease in net assets		
Benefit payments (Note 6)	49,124	50,642
Administration expenses (Note 7)	296	315
	49,420	50,957
Decrease in net assets	(1,339)	(1,367)
Net assets available for benefits at beginning of year	8,111	9,478
Net assets available for benefits at end of year	$ 6,772	$ 8,111

The accompanying notes are part of these financial statements.

Other Information

Statement of Changes in Pension Obligation

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 19,795	$ 21,266
Net increase due to actuarial assumption changes (Note 3a)	3,960	4,259
	23,755	25,525
Decrease in pension obligation		
Benefits paid	49,124	50,642
Net experience gains (Note 3b)	-	-
	49,124	50,642
Net decrease in pension obligation	(25,369)	(25,117)
Pension obligation at beginning of year	545,479	570,596
Pension obligation at end of year (Note 3)	$ 520,110	$ 545,479

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2017

(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 salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of pensionable service. In addition, those members who had achieved 35 years of pensionable service at August 1, 1992 and subsequently terminated are also entitled to a pension.

d) COST-OF-LIVING ADJUSTMENTS

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

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 valuation and extrapolation date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

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).

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, 2014 by Aon Hewitt and was then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the pension obligation of $520,110 (2016: $545,479) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate and inflation rate.

The major assumptions used for accounting purposes were:

	2017	2016
	%	%
Inflation rate	2.00	2.00
Discount rate	3.70	3.80
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

An actuarial valuation of the Plan as at December 31, 2017 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 2018.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2017:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	26,285
Discount rate decrease holding the inflation rate assumption constant	(1.0)	47,162

NOTE 4 DEFICIT

	2017	2016
	($ thousands)	
Deficit at beginning of year	$ (537,368)	$ (561,118)
Decrease in net assets available for benefits	(1,339)	(1,367)
Net decrease in pension obligation	25,369	25,117
Deficit at end of year	$ (513,338)	$ (537,368)

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, 2017, securities held by the Fund have a time weighted rate of return of 0.9% per annum (2016: 0.9% per annum).

NOTE 6 BENEFIT PAYMENTS

	2017	2016
	($ thousands)	
Retirement benefits	$ 47,653	$ 49,113
Disability benefits	214	213
Termination benefits	19	24
Death benefits	1,238	1,292
	$ 49,124	$ 50,642

NOTE 7 ADMINISTRATION EXPENSES

	2017	2016
	($ thousands)	
General administration costs	$ 273	$ 276
Investment management costs	14	14
Actuarial fees	9	25
	$ 296	$ 315

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 and 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 $168 (2016: $171) 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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PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2017

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Public Service Pension Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Pension Plan, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

April 20, 2018
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2017

	($ thousands)	
	2017	**2016**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 13,419,292	$ 11,888,002
Contributions receivable		
Employers	14,525	13,321
Employees	14,594	13,414
Accounts receivable	11,189	12,330
Total Assets	13,459,600	11,927,067
Liabilities		
Accounts payable	28,291	15,066
Liabilities for investment purchases	5,000	1,342
Total Liabilities	33,291	16,408
Net assets available for benefits	$ 13,426,309	$ 11,910,659
Pension obligation and surplus		
Pension obligation (Note 5)	$ 12,150,466	$ 11,607,684
Surplus (Note 6)	1,275,843	302,975
Pension obligation and surplus	$ 13,426,309	$ 11,910,659

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in assets		
Contributions (Note 7)	$ 730,454	$ 702,615
Investment income (Note 8)	1,419,843	814,309
Transfers from other plans	3,888	6,415
	2,154,185	1,523,339
Decrease in assets		
Benefit payments (Note 10)	554,481	481,821
Transfers to other plans	6,400	10,311
Investment expenses (Note 11)	64,616	44,442
Administrative expenses (Note 12)	13,038	13,304
	638,535	549,878
Increase in net assets	1,515,650	973,461
Net assets available for benefits at beginning of year	11,910,659	10,937,198
Net assets available for benefits at end of year	$ 13,426,309	$ 11,910,659

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 705,303	$ 663,275
Benefits earned	470,189	460,504
Net decrease (increase) due to actuarial assumption changes (Note 5a)	50,943	(148,823)
	1,226,435	974,956
Decrease in pension obligation		
Benefits, transfers and interest	560,881	492,132
Net experience gains (losses) (Note 5b)	122,772	(54,474)
	683,653	437,658
Net increase in pension obligation	542,782	537,298
Pension obligation at beginning of year	11,607,684	11,070,386
Pension obligation at end of year (Note 5)	$ 12,150,466	$ 11,607,684

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2017

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Public Service Pension Plan* Alberta Regulation 368/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.

The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0208769. The 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. The Plan is governed by the Public Service 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 the Plan's actuarial deficiency (see Note 14) are funded equally by employers and employees at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2017 are unchanged at 11.70% (2016: 11.70%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 16.72% (2016: 16.72%) of pensionable earnings over the YMPE, with matching contributions by employers.

The contribution rates were reviewed by the Board in 2017 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have decreased at January 1, 2018 as follows: 10.47% of pensionable salary up to the Canada Pension Plan's YMPE and 14.95% of pensionable earnings over the YMPE, with matching contributions by employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE over the same five consecutive year period and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum combined pensionable service allowable under the Plan is 35 years. Pensions are payable to vested members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of combined pensionable service.

d) DISABILITY PENSIONS

Unreduced pensions may be payable to members who become totally disabled and have at least two years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and have at least two 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 prior to retirement. If the member has at least two years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where combined pensionable service is less than two years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of combined pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any Purchased Service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the commuted value, that excess is paid as a cash refund under the 50% excess rule. Alternatively, they may elect to receive a deferred pension which is also subject to the 50% excess rule. Members who terminate with less than two years of combined pensionable service receive a refund of their contributions and 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 Purchased Service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

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

d) 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.

e) 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.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland pools. 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland pools 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, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's board. The 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]			**2017**	**2016**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Money market	$ -	$ 78,382	$ -	$ 78,382	$ 91,894
Bonds, mortgages and private debt	-	2,232,171	610,417	2,842,588	2,403,402
	-	2,310,553	610,417	2,920,970	2,495,296
Equities					
Canadian	1,388,798	104,975	328,569	1,822,342	1,677,462
Global developed	3,959,105	274,191	666,204	4,899,500	4,238,421
Emerging market	535,916	40,997	126,790	703,703	580,865
Private	-	-	327,336	327,336	331,683
	5,883,819	420,163	1,448,899	7,752,881	6,828,431
Alternatives					
Real estate	-	-	1,710,356	1,710,356	1,652,503
Infrastructure	-	-	764,537	764,537	649,482
Timberland	-	-	186,069	186,069	174,046
	-	-	2,660,962	2,660,962	2,476,031
Opportunistic and currency investments *	-	-	84,479	84,479	88,244
Total investments	$5,883,819	$ 2,730,716	$4,804,757	$13,419,292	$11,888,002

* 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. This level includes publicly traded listed equity investments totalling $5,883,819 (2016: $5,263,031).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $2,730,716 (2016: $2,544,003). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $4,804,757 (2016: $4,080,968).

Reconciliation of Level 3 Fair Value Measurements

	($ thousands) 2017	2016
Balance, beginning of year	$ 4,080,968	$ 3,993,164
Investment income *	285,972	202,523
Purchases of Level 3 pooled fund units	1,295,829	482,398
Sale of Level 3 pooled fund units	(858,012)	(597,117)
Balance, end of year	$ 4,804,757	$ 4,080,968

* Investment income includes unrealized losses of $72,778 (2016: $114,858).

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:

- ***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 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.
- ***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 timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic 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 and 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 Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 target policy asset mix:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2017 ($ thousands)	2017 %	Actual Asset Mix 2016 ($ thousands)	2016 %
Fixed income	11 - 33%	$ 2,920,970	21.8	$ 2,495,296	21.0
Equities	37 - 65%	7,752,881	57.8	6,828,431	57.5
Alternatives	15 - 30%	2,660,962	19.8	2,476,031	20.8
Opportunistic and currency investments	(a)	84,479	0.6	88,244	0.7
		$13,419,292	100.0	$11,888,002	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% of the fair value of the Plan's investments in opportunistic investments 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.

The following table summarizes the Plan's investment in debt securities by credit rating at December 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	78.9%	80.7%
Speculative Grade (BB+ or lower)	0.3%	0.1%
Unrated	20.8%	19.2%
	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 December 31, 2017, the Plan's share of securities loaned under this program is $1,452,969 (2016: $1,156,519) and collateral held totals $1,563,812 (2016: $1,232,445). 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 41% (2016: 39%) of the Plan's investments, or $5,472,434 (2016: $4,670,105), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 22% (2016: 21%) and the Euro, 4% (2016: 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 Plan would be approximately 4.1% of total investments (2016: 3.9%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2017:

	($ thousands)			
	2017		2016	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$2,885,640	$ (288,564)	$2,492,281	$ (249,228)
Euro	569,736	(56,973)	413,037	(41,304)
Japanese yen	444,776	(44,478)	368,483	(36,848)
British pound	300,018	(30,002)	252,199	(25,220)
Hong Kong dollar	200,780	(20,078)	155,632	(15,563)
Swiss franc	139,332	(13,933)	135,735	(13,574)
Australian dollar	137,152	(13,715)	125,315	(12,532)
Other foreign currency	795,000	(79,500)	727,423	(72,742)
Total foreign currency investments	$5,472,434	$ (547,243)	$4,670,105	$ (467,011)

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

Other Information

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 2.0% of total investments (2016: 1.8%).

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 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 6.5% of total investments (2016: 6.0%). 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 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	**2017**	**2016**
Contracts in net favourable position (current credit exposure)	64	$ 161,761	$ 53,438
Contracts in net unfavourable position	11	(84,810)	(13,436)
Net fair value of derivative contracts	75	$ 76,951	$ 40,002

(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 $161,761 (2016: $53,438) 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	2017	2016
Structured equity replication derivatives	$ 28,307	$ 32,867
Foreign currency derivatives	25,625	4,600
Interest rate derivatives	19,188	(1,389)
Credit risk derivatives	3,831	3,924
Net fair value of derivative contracts	$ 76,951	$ 40,002

(i) Structured equity replication derivatives: 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: 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: 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) Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $15,228 (2016: $27,339) and deposits as collateral for derivative contracts totalled ($279) (2016: $52).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2016 by George and Bell Consulting and results were then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the pension obligation of $12,150,466 (2016: $11,607,684) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate	6.10	6.10
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, 2019. 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 2020.

b) NET EXPERIENCE GAINS

Net experience gains of $122,772 (2016: losses $54,474) reflect the results of the valuation as at December 31, 2016 extrapolated to December 31, 2017.

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, 2017:

	($ 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	884,300	1.5
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	281,626	1.0
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,584,820	2.9

* The current service cost as a percentage of pensionable earnings is 17.1% at December 31, 2017

NOTE 6 SURPLUS

	($ thousands) 2017	2016
Surplus at beginning of year	$ 302,975	$ (133,188)
Increase in net assets available for benefits	1,515,650	973,461
Net increase in pension obligation	(542,782)	(537,298)
Surplus at end of year	$ 1,275,843	$ 302,975

NOTE 7 CONTRIBUTIONS

	($ thousands) 2017	2016
Current service		
Employers	$ 361,885	$ 347,860
Employees	360,647	347,836
Past service		
Employers	1,863	2,223
Employees	6,059	4,696
	$ 730,454	$ 702,615

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	2017 Total	2016 Total
Fixed income	$ 126,834	$ (8,043)	$ 118,791	$ 101,221
Equities				
Canadian	82,962	98,332	181,294	293,949
Foreign	677,775	191,246	869,021	250,407
Private	34,122	(32,468)	1,654	25,720
	794,859	257,110	1,051,969	570,076
Alternatives				
Real estate	85,178	63,232	148,410	85,791
Infrastructure	69,836	(3,469)	66,367	60,531
Timberland	18,440	11,692	30,132	16,833
	173,454	71,455	244,909	163,155
Opportunistic and currency investments	10,636	(6,462)	4,174	(20,143)
	$ 1,105,783	$ 314,060	$ 1,419,843	$ 814,309

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 $143,592 and $170,468 respectively (2016: $124,494 and ($71,877) respectively).

NOTE 8 INVESTMENT IMCOME CONTINUED

Realized and unrealized gains and losses on currency hedges total $nil and $nil respectively (2016: ($21,376) and $2,359 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 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:

	2017	2016	2015	2014	2013
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.7	6.6	8.0	12.5	12.6
Value added (lost) by AIMCo	1.6	0.3	1.8	(0.3)	1.5
Time weighted rate of return, at fair value [a]	**11.3**	**6.9**	**9.8**	**12.2**	**14.1**
Other sources [b]	1.4	2.0	2.0	2.1	3.1
Per cent change in net assets [c]	**12.7**	**8.9**	**11.8**	**14.3**	**17.2**
Per cent change in pension obligation [c]	**4.7**	**4.9**	**4.5**	**7.9**	**9.7**
Per cent of pension obligation supported by net assets	**111**	**103**	**99**	**92**	**87**

(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 10.8% (PBR: 9.8%), ten years is 6.9% (PBR: 6.6%) and 20 years is 7.3% (PBR: 6.9%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 5.5% (2016: 6.05%).

(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)	
	2017	**2016**
Retirement benefits	$ 404,951	$ 374,533
Disability pensions	1,568	1,606
Termination benefits	113,388	78,995
Death benefits	34,574	26,687
	$ 554,481	$ 481,821

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2017	2016
Amounts charged by AIMCo for:		
Investment costs [a]	$ 52,923	$ 42,126
Performance based fees [a]	9,052	577
GST [b]	2,589	1,687
	64,564	44,390
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 64,616	$ 44,442
Increase (decrease) in expenses [a]	45.4%	(17.0%)
Increase in average investments under management	11.1%	10.2%
Increase in value of investments attributed to AIMCo	1.6%	0.3%
Investment expense as a percent of:		
Dollar earned	4.6%	5.5%
Dollar invested	0.5%	0.4%
Investment expenses per member	$ 766	$ 519

(d) 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 increase (decrease) in investment costs and performance based fees is 45.1% (2016: (18.3%)).

(e) GST includes $626 (2016: $nil) which was recorded as a receivable in prior years but determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2017	2016
General administration costs	$ 12,630	$ 12,955
Board costs	124	91
Actuarial fees	129	110
Other professional fees	155	148
	13,038	13,304
Member service expenses per member	$ 154	$ 155

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 administrative expenses per Note 12 are $77,654 (2016: $57,746) or $920 (2016: $674) per member and 0.58% (2016: 0.49%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's 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 $12,691,000 at December 31, 2017 (2016: $11,346,000).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2016 actuarial funding valuation is being funded by a special payment in the amount of 4.34% of pensionable earning shared between employees and employers until December 31, 2026.

The special payments have been included in the rates shown in Note 1b.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2017 presentation.

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 Board.

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2017

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

April 20, 2018
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2017

	($ thousands) 2017	2016
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,997,558	$ 2,687,940
Contributions receivable		
Employers	1,485	2,658
Employees	1,345	2,829
Province of Alberta	453	661
Accounts receivable	358	1,295
Receivable for investment sales	-	2,500
Total Assets	3,001,199	2,697,883
Liabilities		
Accounts payable	1,009	3,673
Liability for investment purchases	-	3,307
Total Liabilities	1,009	6,980
Net assets available for benefits	$ 3,000,190	$ 2,690,903
Pension obligation and surplus or deficit		
Pension obligation (Note 5)	$ 2,929,047	$ 2,799,428
Surplus (Deficit) (Note 6)	71,143	(108,525)
Pension obligation and surplus or deficit	$ 3,000,190	$ 2,690,903

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

($ thousands)

	2017			2016
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 7)	$ 128,694	$ 6,607	$ 135,301	$ 135,362
Investment income (Note 8)	300,613	10,851	311,464	185,589
COLA transfer increase (decrease) (Note 15)	750	(750)	-	-
	430,057	16,708	446,765	320,951
Decrease in assets				
Benefit payments (Note 10)	118,585	-	118,585	117,511
Investment expenses (Note 11)	16,238	534	16,772	13,831
Administrative expenses (Note 12)	2,121	-	2,121	1,929
	136,944	534	137,478	133,271
Increase in net assets	293,113	16,174	309,287	187,680
Net assets available for benefits at beginning of year	2,600,088	90,815	2,690,903	2,503,223
Net assets available for benefits at end of year	$ 2,893,201	$ 106,989	$ 3,000,190	$ 2,690,903

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2017

($ thousands)

	2017			2016
	Pre-1992	Post-1991	Total	Total
Increase in pension obligation				
Interest accrued on opening pension obligations	$ 47,804	$ 120,352	$ 168,156	$ 160,015
Benefits earned	-	101,341	101,341	94,545
	47,804	221,693	269,497	254,560
Decrease in pension obligation				
Benefits, transfers and interest	63,586	57,962	121,548	119,997
Net experience gains (Note 5b)	11,102	7,228	18,330	-
	74,688	65,190	139,878	119,997
Net increase in pension obligation	(26,884)	156,503	129,619	134,563
Pension obligation at beginning of year	810,239	1,989,189	2,799,428	2,664,865
Pension obligation at end of year (Note 5)	$ 783,355	$ 2,145,692	$ 2,929,047	$ 2,799,428

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2017

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Special Forces 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

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2016.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2016 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2017 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Of this, contribution rates towards current service were 10.26% of pensionable salary for employers and 9.16% for employees. Contributions towards the post-1991 actuarial deficiency were 2.79% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2017 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA of 0.75% each (refer to the Indexing Fund below) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2017 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the salary above YMPE, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. For members who retire before age 65, the pension will include a bridge benefit. This bridge is provided up to age 65. The bridge benefit is 0.6% for each year of pensionable service based on the average of the highest five consecutive years up to the YMPE.

d) DISABILITY PENSIONS

Pensions may be payable to members who become totally disabled and retire early with at least five years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of pensionable service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability pensions.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of pensionable service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of 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 Purchased Service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of pensionable service receive a refund of contributions and interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the *Public Sector Pension Plans Act* Schedule 4).

h) PURCHASED SERVICE AND TRANSFERS

All Purchased Service purchases are to be cost-neutral to the Plan. Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2017, COLA at 30% (January 2016: 30%) of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) 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 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.

d) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

e) 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.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known. Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The 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]			2017	2016
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 28,651	$ -	$ 28,651	$ 35,608
Bonds, mortgages and private debt and loans	-	641,080	89,991	731,071	627,660
	-	669,731	89,991	759,722	663,268
Equities					
Canadian	358,016	26,983	84,701	469,700	448,893
Global developed	594,163	65,809	186,355	846,327	749,083
Private	-	-	69,865	69,865	68,901
Emerging markets	97,489	7,458	23,065	128,012	105,423
Global small cap equity	92,071	-	-	92,071	87,218
	1,141,739	100,250	363,986	1,605,975	1,459,518
Inflation sensitive					
Real estate	-	-	271,468	271,468	257,390
Infrastructure	-	-	138,412	138,412	100,989
Real return bonds	-	137,387	-	137,387	125,795
Timberland	-	-	50,315	50,315	45,143
	-	137,387	460,195	597,582	529,317
Strategic, tactical and currency investments *	-	2,959	31,320	34,279	35,837
Total investments	$1,141,739	$ 910,327	$ 945,492	$2,997,558	$2,687,940

* 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. This level includes publicly traded listed equity investments totalling $1,141,739 (2016: $964,111).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $910,327 (2016: $835,824). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

NOTE 3 INVESTMENTS CONTINUED

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $945,492 (2016: $888,005).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2017	2016
Balance, beginning of year	$ 888,005	$ 841,859
Investment income *	76,317	46,816
Purchases of Level 3 pooled fund units	307,108	158,335
Sale of Level 3 pooled fund units	(325,938)	(159,005)
Balance, end of year	$ 945,492	$ 888,005

* Investment income includes unrealized losses of $27,602 (2016: $23,079).

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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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	Long-term Policy Weight	Actual Asset Mix 2017		Actual Asset Mix 2016	
		($ thousands)	*%*	*($ thousands)*	*%*
Interest-bearing securities					
Money market (cash and short-term securities)	1%	$ 28,651	1.0	$ 35,608	1.3
Fixed income (bonds and mortgages)	24%	731,071	24.4	627,660	23.4
Equities	50%	1,605,975	53.6	1,459,518	54.3
Inflation sensitive	25%	597,582	19.9	529,317	19.7
Strategic, tactical and currency	(a)	34,279	1.1	35,837	1.3
		$2,997,558	100.0	$2,687,940	100.0

a) In accordance with the SIP&G, AIMCo may invest up to 5% 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.

The table below summarizes the Plan's investments in debt securities by credit rating at December 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	88.7%	90.3%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	11.1%	9.7%
	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 December 31, 2017, the Plan's share of securities loaned under this program is $412,596 (2016: $309,651) and collateral held totals $445,069 (2016: $328,499). 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 36% (2016: 33%) of the Plan's investments, or $1,065,546 (2016: $898,695), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 18% (2016: 18%) and the Euro, 4% (2016: 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 Plan would be approximately 3.6% (2016: 3.3%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2017:

	($ thousands)			
	2017		2016	
Currency [(a)]	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	$ 548,895	$ (54,890)	$ 476,497	$ (47,650)
Euro	116,830	(11,683)	88,558	(8,856)
Japanese yen	85,031	(8,503)	68,488	(6,849)
British pound	63,573	(6,358)	49,946	(4,995)
Hong Kong dollar	33,373	(3,337)	26,177	(2,618)
Other foreign currency	217,844	(21,784)	189,029	(18,903)
Total foreign currency investments	$1,065,546	$ (106,555)	$ 898,695	$ (89,870)

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

Other Information

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 3.5% (2016: 3.3%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in 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 Plan would be approximately 6.2% (2016: 6.4%). 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 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 realestate, 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	**2017**	**2016**
Contracts in net favourable position (current credit exposure)	66	$ 40,952	$ 15,156
Contracts in net unfavourable position	10	(19,942)	(4,855)
Net fair value of derivative contracts	76	$ 21,010	$ 10,301

(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 $40,952 (2016: $15,156) 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	**2017**	**2016**
Structured equity replication derivatives	$ 6,509	$ 6,717
Foreign currency derivatives	7,479	3,359
Interest rate derivatives	6,156	(653)
Credit risk derivatives	866	878
Net fair value of derivative contracts	$ 21,010	$ 10,301

(i) Structured equity replication derivatives: 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: 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: 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) Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $3,592 (2016: $6,311) and deposits as collateral for derivative contracts totalled $(106) (2016: $737).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2016 by Mercer (Canada) Limited and was then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,929,047 (2016: $2,799,428) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate	5.90	5.90
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.

An actuarial valuation of the Plan as at December 31, 2019 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 2020.

b) NET EXPERIENCE GAINS

Net experience gains of $18,330 (2016: $nil) arose from differences between the actuarial assumptions used in the 2016 valuation and 2017 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2017:

	($ 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	162,683	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	117,228	2.2
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	501,516	5.8

* The current service cost as a % of pensionable earnings as determined by the December 31, 2017 extrapolation is 21.19%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 6 SURPLUS (DEFICIT)

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

($ thousands)

	2017			2016
	Pre-1992	**Post-1991**	**Total**	**Total**
Deficit at beginning of year	$ (191,613)	$ 83,088	$ (108,525)	$ (161,642)
Increase in Plan Fund net assets available for benefits	16,095	277,018	293,113	176,149
Increase in Indexing Fund net assets		16,174	16,174	11,531
Net increase in pension obligation	26,884	(156,503)	(129,619)	(134,563)
Surplus (Deficit) at end of year	$ (148,634)	$ 219,777	$ 71,143	$ (108,525)

($ thousands)

	2017			2016
	Pre-1992	**Post-1991**	**Total**	**Total**
Plan opening net assets available for benefits	$ 618,626	$ 2,072,277	$ 2,690,903	$ 2,503,223
Increase in Plan net assets available for benefits	16,095	293,192	309,287	187,680
Plan closing net assets available for benefits	$ 634,721	$ 2,365,469	$ 3,000,190	$ 2,690,903

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

($ thousands)

	2017	2016
Current service		
Employers	$ 49,849	$ 50,393
Employees	44,789	45,353
Unfunded liability		
Employers	16,925	16,222
Employees	16,925	16,222
Province of Alberta	5,977	5,728
Past service		
Employers	120	162
Employees	628	1,250
Transfers from other plans	88	32
	$ 135,301	$ 135,362

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**	**2017 Total**	**2016 Total**
Interest-bearing securities	$ 34,758	$ 6,708	$ 41,466	$ 17,194
Equities				
Canadian	21,463	25,676	47,139	79,103
Foreign	151,016	19,079	170,095	62,179
Private	8,647	(5,622)	3,025	2,042
	181,126	39,133	220,259	143,324
Inflation Sensitive				
Real estate	14,969	9,197	24,166	12,831
Real return bonds	11,120	(9,194)	1,926	4,176
Infrastructure	13,704	(562)	13,142	8,228
Timberland	5,126	3,029	8,155	4,366
	44,919	2,470	47,389	29,601
Strategic, tactical and currency investments	4,923	(2,573)	2,350	(4,530)
	$ 265,726	$ 45,738	$ 311,464	$ 185,589

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 $47,709 and $(1,873) respectively (2016: $10,303 and $(11,048) respectively). Realized and unrealized gains and losses on currency hedges total $607 and $(705) respectively (2016: $(5,201) and $641 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 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:

	2017	2016	2015	2014	2013
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.6	6.8	7.1	12.2	13.3
Value added return (loss) by investment manager	1.3	-	2.2	(0.2)	1.2
Time weighted rate of return, at fair value [(a)]	**10.9**	**6.8**	**9.3**	**12.0**	**14.5**
Other sources [(b)]	0.6	0.7	0.4	0.6	1.3
Per cent change in net assets [(c)]	**11.5**	**7.5**	**9.7**	**12.6**	**15.8**
Per cent change in pension obligation [(c)]	**4.6**	**5.0**	**7.8**	**10.0**	**-**
Per cent of pension obligation supported by net assets	**102**	**96**	**94**	**92**	**90**

(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 10.7% (PBR: 9.8%), ten years is 7.0% (PBR: 6.7%) and twenty years is 7.4% (PBR: 7.0%). The Plan's actuary estimates the long-term net investment returns on assets for funding purposes to be 5.3% (2016: 6.1%)

(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) 2017	2016
Retirement benefits	$ 106,912	$ 103,120
Disability pensions	278	234
Termination benefits	10,137	12,157
Death benefits	1,258	2,000
	$ 118,585	$ 117,511

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2017	2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 12,967	$ 11,658
Performance based fees [(a)]	3,045	1,555
GST [(b)]	682	540
	16,694	13,753
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	78	78
Total investment expenses	$ 16,772	$ 13,831
Increase (decrease) in expenses [(a)]	21.3%	(9.2%)
Increase in average investments under management	9.7%	8.6%
Increase in value of investments attributed to AIMCo	1.3%	0.0%
Investment expense as a percent of:		
Dollar earned	5.4%	7.5%
Dollar invested	0.6%	0.5%
Investment expenses per member	$ 2,302	$ 1,925

Other Information

NOTE 11 INVESTMENT EXPENSES CONTINUED

(d) 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 increase (decrease) in investment costs and performance based fees is 21.2% (2016: (10.8%)).

(e) GST includes $159 (2016: $nil) which was recorded as a receivable in prior years but determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

	($ thousands) 2017	2016
General administration costs	$ 1,649	$ 1,657
Board costs	103	65
Actuarial fees	165	113
Other professional fees	204	94
	$ 2,121	$ 1,929
Member service expenses per member	$ 291	$ 269

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board, 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 $18,893 (2016: $15,760) or $2,593 (2016: $2,194) per member and 0.63% (2016: 0.59%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2017	2016
The following amounts were paid:		
Remuneration		
Chair	$ 9,699	$ 2,378
Members	26,363	25,160
Travel, training and conference expenses		
Chair	7,252	323
Members	23,358	11,395

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the *Public Sector Pension Plans Act* (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall, on the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. For 2017 there was a transfer of $750 (2016: $650)

NOTE 16 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's 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 $2,896,626 at December 31, 2017 (2016 $2,655,190), comprising of $611,145 (2016: $609,369) Pre-1992 and $2,285,481 (2016: $2,045,821) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 5.58% of pensionable salary shared equally between employees and employers (2.79% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2017 (see Note 1b).

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2017 presentation.

NOTE 18 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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SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2017

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

April 20, 2018
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2017

	($ thousands) 2017	2016
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 20,569	$ 21,922
Refundable income tax (Note 1f and Note 5)	36,597	35,371
Contributions receivable		
Employers	128	132
Employees	128	136
Due from Alberta Pensions Services Corporation	456	581
Due from SRP Reserve Fund (Note 6)	129,571	114,492
Total Assets	187,449	172,634
Liabilities		
Income tax payable	317	352
Other payables	894	-
Total Liabilities	1,211	352
Net assets available for benefits	186,238	172,282
Pension obligation and deficit		
Pension obligation (Note 7)	241,222	222,302
Deficit (Note 8)	(54,984)	(50,020)
Pension obligation and deficit	$ 186,238	$ 172,282

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in assets		
Contributions (Note 9)	$ 7,267	$ 7,865
Increase in SRP Reserve Fund (Note 6)	15,079	11,083
Investment income (Note 10)	717	711
	23,063	19,659
Decrease in assets		
Benefit payments (Note 11)	8,297	5,434
Investment expenses (Note 12)	54	60
Administrative expenses (Note 13)	756	703
	9,107	6,197
Increase in net assets	13,956	13,462
Net assets available for benefits at beginning of year	172,282	158,820
Net assets available for benefits at end of year	$ 186,238	$ 172,282

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 9,262	$ 10,141
Benefits earned	9,498	10,721
Net experience losses (Note 7b)	8,457	47,584
	27,217	68,446
Decrease in pension obligation		
Benefits paid	8,297	5,434
Net decrease due to actuarial assumption changes (Note 7a)	-	15,835
	8,297	21,269
Net increase in pension obligation	18,920	47,177
Pension obligation at beginning of year	222,302	175,125
Pension obligation at end of year (Note 7)	$ 241,222	$ 222,302

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2017

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The 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 the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service 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 SRP Reserve Fund (see Note 6) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2017 were 12.80% (2016: 12.80%) of pensionable earnings over the maximum pensionable earnings 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 and 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.

Disability, death, termination benefits and cost-of-living adjustments under this Plan usually follow those of the MEPP.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

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) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) 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 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.

d) 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.

e) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the benefit obligation in the year when actual results are known.

NOTE 3 INVESTMENTS

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]			2017	2016
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 270	$ -	$ 270	$ 1,302
Bonds	-	20,299	-	20,299	20,620
Total Investment	$ -	$ 20,569	$ -	$ 20,569	$ 21,922

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. This level includes publicly traded listed equity investments totalling $nil (2016: $nil).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $20,569 (2016: $21,922). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $nil (2016: $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 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. 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 and 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.

The table below summarizes debt securities by credit rating at December 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	97.4%	98.9%
Speculative Grade (BB+ or lower)	0.4%	0.1%
Unrated	2.2%	1.0%
	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 December 31, 2017, the Plan's share of securities loaned under this program is $4,141 (2016: $1,915) and collateral held totals $4,482 (2016: $1,986). 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 7.3% (2016: 6.2%).

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).

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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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) 2017	2016
Contracts in net favourable position (current credit exposure)	15	$ 189	$ 104
Contracts in net unfavourable position	2	(7)	(111)
Net fair value of derivative contracts	17	$ 182	$ (7)

(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 $189 (2016: $104) 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) 2017	2016
Interest rate derivatives	$ 163	$ (30)
Foreign currency derivatives	6	(6)
Credit risk derivatives	13	29
Net fair value of derivative contracts	$ 182	$ (7)

(i) 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.

(ii) Foreign currency derivatives: 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: 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) Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $24 (2016: $17) and deposits as collateral for derivative contracts totalled $7 (2016: $1).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2017	2016
Refundable income tax at beginning of year	$ 35,371	$ 33,398
Tax on employees and employers contributions received	3,641	3,972
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(2,415)	(1,999)
Refundable income tax at end of year	$ 36,597	$ 35,371

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 and 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 and 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, 2017, the SRP Reserve Fund had net assets with fair value totalling $129,571 (2016: $114,492), comprising of $129,571 (2016: $114,362) in investments and $nil (2016: $130) in receivables. The increase during the year of $15,079 (2016: $11,083) is attributed to contributions from employers of $2,549 (2016: $3,206), investment gains of $12,530 (2016: $7,877).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2016 by Aon Hewitt and results were then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the pension obligation of $241,222 (2016: $222,302) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 7 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate on an after-tax basis	4.40	4.40
Inflation rate	2.00	2.00
Discount rate	5.90	5.90
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, 2018. 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 2019.

b) NET EXPERIENCE LOSSES

Net experience losses of $8,457(2016: $47,584) reflect the results of the valuation as at December 31, 2016 extrapolated to December 31, 2017.

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, 2017:

	($ thousands)		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	21,415	2,613
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	48,399	6,895
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	46,028	4,410

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands) 2017	2016
Deficit at beginning of year	$ (50,020)	$ (16,305)
Increase in net assets available for benefits	13,956	13,462
Net increase in pension obligation	(18,920)	(47,177)
Deficit at end of year	$ (54,984)	$ (50,020)

NOTE 9 CONTRIBUTIONS

	($ thousands) 2017	2016
Employers	$ 3,634	$ 3,878
Employees	3,633	3,987
	$ 7,267	$ 7,865

NOTE 10 INVESTMENT INCOME

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

	($ thousands) Income	Change in Fair Value	2017	2016 Total
Interest-bearing securities	$ 1,016	$ (299)	$ 717	$ 711

The change in fair value includes realized gains and losses from disposal of pool units totaling ($16) (2016: $57) and unrealized gains and losses on units totaling ($283) (2016: ($677)).

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, 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 11 BENEFIT PAYMENTS

	($ thousands) 2017	2016
Retirement benefits	$ 5,374	$ 4,673
Termination benefits	2,537	718
Death benefits	386	43
	$ 8,297	$ 5,434

NOTE 12 INVESTMENT EXPENSES

	($ thousands) 2017	2016
Amount charged by AIMCo for:		
Investment costs [a]	$ 27	$ 32
GST	2	3
	29	35
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	25	25
Total investment expenses	$ 54	$ 60
(Decrease) increase in expenses	(10.0%)	13.2%
(Decrease) increase in average investments under management	(2.5%)	3.4%
Investment expense as a percent of:		
Dollar earned	7.5%	8.4%
Dollar invested	0.3%	0.3%
Investment expenses per member	$ 23	$ 26

(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 (15.6%) (2016: 18.5%).

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $756 (2016: $703) were charged to the Plan on a cost recovery basis.

	($ thousands) 2017	2016
General administration costs	$ 704	$ 655
Actuarial fees	40	44
Other professional fees	12	4
	$ 756	$ 703
Member service expenses per member	$ 325	$ 304

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 and Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $810 (2016: $763) or $348 (2016: $330) per member and 0.43% (2016: 0.44%) of net assets under administration.

NOTE 15 CAPITAL

The Plan defines its capital as the funded status as described in Notes 1b, 1e, Note 6 and Note 8.

NOTE 16 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2017 presentation.

NOTE 17 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

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