Treasury Board and Finance

Annual Report **2018–2019**

Note to Readers:
Copies of the annual report are available on the Alberta Treasury Board and Finance website
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Table of Contents

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

This annual report of the Ministry of Treasury Board and Finance contains the financial information of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:

- **the financial statements of entities making up the ministry including the regulated funds, provincial agencies and Crown-controlled corporations for which the minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Fiscal Planning and Transparency Act*, 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.**

In December 2018, government announced changes to the 2018-19 ministry annual reports. Ministry and department audited financial statements previously included in the annual report of the Ministry of Treasury Board and Finance have been replaced with the financial information of the ministry on pages 45 to 60.

Key information previously contained in the annual reports of each of the 21 ministries is now included in the audited consolidated financial statements of the province.

Message from the President of Treasury Board and Minister of Finance

On April 30, 2019 I was honoured to be sworn in as the President of Treasury Board and Minister of Finance. I take this responsibility seriously and, along with my colleagues, am relentlessly focused on our government's key goal: renewing the Alberta Advantage.

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

This annual report provides the results of the ministry's revenue, spending, assets and liabilities for the 2018-19 fiscal year.

Our government is restoring discipline, structure and rigour to Alberta's finances. I look forward to presenting a comprehensive first report on our results next year. As the minister responsible for our financial security, I am confident that such a report will reflect the thoughtful, prudent choices we will implement in the coming months to ensure that the high-quality services we have come to rely on in Alberta are sustainable for the future.

Along with the experts at Treasury Board and Finance, I commit to getting the best value for your hard-earned tax dollars. I look forward to the year ahead and reporting back to you with great progress towards our goals.

[Original signed by]

Honourable Travis Toews

President of Treasury Board and Minister of Finance

June 5, 2019

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, Liquor and Cannabis Commission
- Alberta Lottery Fund
- Alberta Investment Management Corporation
- Alberta Pensions Services Corporation
- Alberta Securities Commission
- ATB Financial and its subsidiaries
- Credit Union Deposit Guarantee Corporation
- N.A. Properties (1994) Ltd.
- Gainers Inc.

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

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

Responsibility for the integrity and objectivity of the accompanying ministry financial information and performance results for the ministry rests with the President of Treasury Board and Minister of Finance. Under the direction of the Minister, I oversee the preparation of the ministry's annual report, including the financial information and performance results. The financial information and performance results, of necessity, include amounts that are based on estimates and judgments. The financial information is prepared using the government's stated accounting policies, which are based on Canadian public sector accounting standards. 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 2018*.

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

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

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

[Original signed by]

Athana Mentzelopoulos

Deputy Minister of Treasury Board and Finance

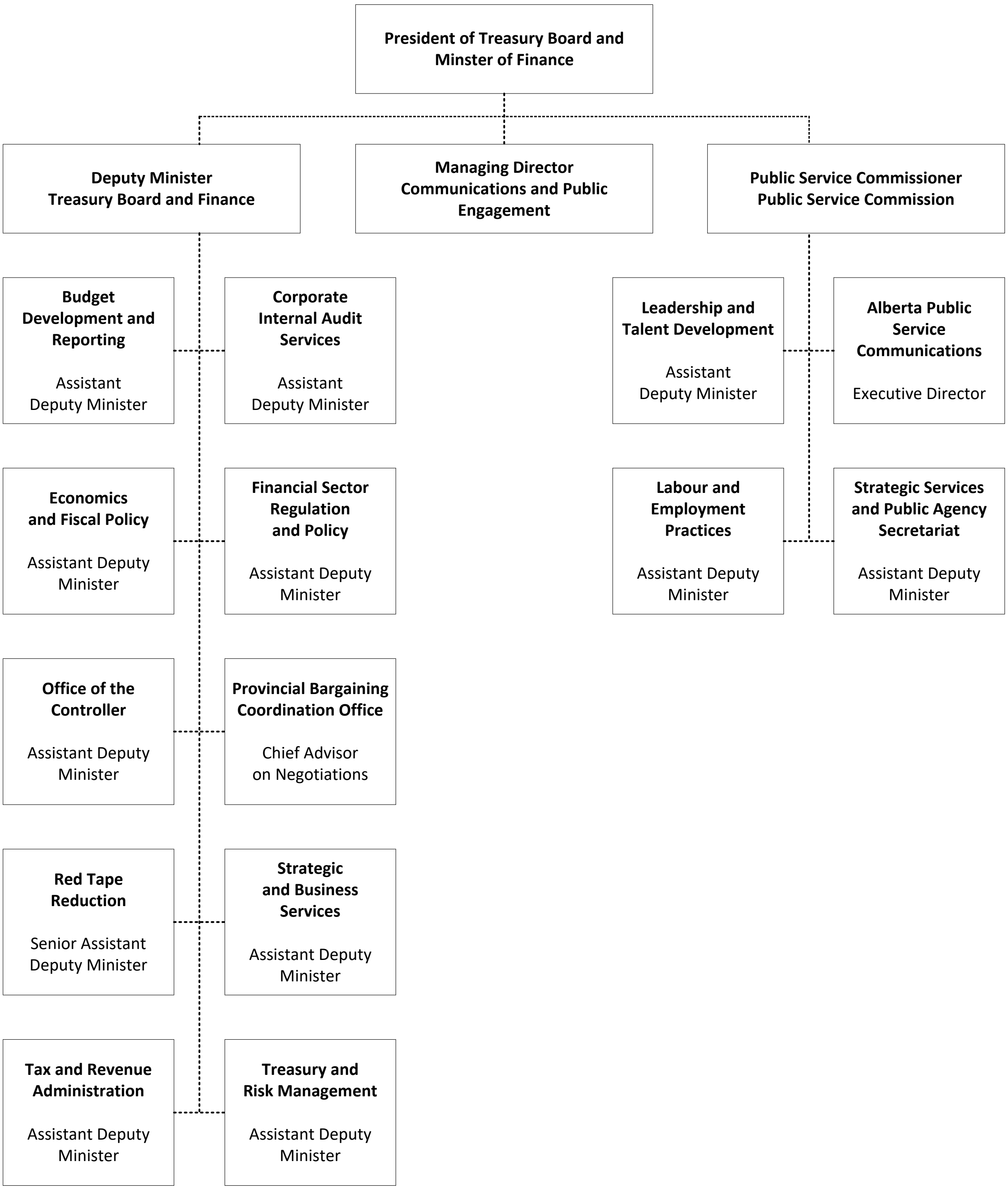
June 5, 2019

Results Analysis

Table of Contents

Ministry Overview

Organizational Chart



Operational Overview

Treasury Board and Finance:

Budget Development and Reporting

Budget Development and Reporting (BDR) provides timely, relevant and accurate budget analysis, advice and recommendations to decision-makers including the Premier, cabinet, minister, Treasury Board and other bodies. BDR provides guidance to ministries on budgets, and financial planning, and is accountable for the government's budgeting (annual budget and quarterly fiscal updates) and key financial results included in the annual report. BDR is also the secretariat to Treasury Board Committee. To support this role, BDR serves as the primary contact for coordinating program budgeting and fiscal planning processes across government.

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.

Economic 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 and pensions (including the Canada Pension Plan); and regulating and supervising loan and trust corporations, financial institutions, insurance companies and registered 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) plays a lead role in supporting government's interests, as employer and funder, with respect to public-sector labour relations and related negotiations. PBCO prepares bargaining mandates and supports cross-sectorial coordination in bargaining by providing training, strategic advice, negotiations support, compensation research, and leadership to government and its funded employer partners on public sector labour relations matters.

Strategic and Business Services

Strategic and Business Services supports the ministry's operations by leading the implementation of a robust business and strategic planning and reporting framework for all ministries and the Government of Alberta; offering financial advisory, planning and accounting services; delivering strategic policy leadership and support; managing information and records for TBF, Communications and Public Engagement and Executive Council; and managing facility operations for TBF, Communications and Public Engagement and Executive Council. The division also supports the government's relationship with Alberta Gaming, Liquor and Cannabis, and Horse Racing Alberta.

Tax and Revenue Administration

Tax and Revenue Administration administers tax, revenue, grants and other programs under 10 Acts, including the *Alberta Corporate Tax Act*, the *Fuel Tax Act*, the *Tobacco Tax Act*, and the *Tourism Levy Act*. The focus of the division's work is to ensure a fair, efficient and effective provincial tax and revenue administration system. The division also contributes to the development of Alberta tax and revenue policy.

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 funds. In addition, the division provides policy support and analysis for financial institutions and capital markets. The division also assists in the identification, measurement, control and financing of the risks of accidental loss to government.

Public Service Commission:

Labour and Employment Practices

Labour and Employment Practices provides consulting and training to Government of Alberta departments regarding employee health, safety, and wellness practices, talent acquisition and mobility, job evaluation, employee classification and compensation. Additional responsibilities include managing employee benefit programs, providing employment-related issue resolution, and representing the employer in collective bargaining and labour relations between the Alberta Union of Provincial Employees (AUPE) and the Government of Alberta.

Leadership and Talent Development

Leadership and Talent Development provides human resources (HR) services and programs to support organizational effectiveness for all Government of Alberta departments. Responsibilities include supporting programs and initiatives to attract and develop strong people leaders, engaging employees across the Alberta Public Service (APS), and delivering learning and career development opportunities.

Strategic Services and Public Agency Secretariat

Strategic Services and Public Agency Secretariat supports a modern, effective, and responsible public service by modernizing the APS HR system, supporting APS-wide policy development, providing policy advice and support related to HR directives, strategy development and data analysis. Additional responsibilities include conducting workforce planning and analytics to support decisions on the current and future APS workforce and delivering the Policy Essentials and policy internship programs. The Public Agency Secretariat collaborates with departments and public agencies to promote a consistent approach to public agency governance, recruitment and compensation.

APS Communications

APS Communications leads APS wide internal communications initiatives, HR-related change management and promotes the APS as an employer. It supports the President of Treasury Board and Minister of Finance, Public Service Commissioner, Deputy Minister of Executive Council, and works closely with Communications and Public Engagement and department-based internal communications teams to ensure communications are coordinated, effective and aligned.

Communications and Public Engagement:

This cross-government department provides communications, public relations and marketing services to government ministries and to the Government of Alberta (GoA) as a whole.

Key Highlights in the Past Year

In 2018-19, Treasury Board and Finance (TBF) played an important role in supporting Alberta's economic recovery and contributing to government's development and implementation of fiscal policies and *Budget 2018* initiatives. Some key highlights include:

Government expenditure oversight

- Throughout fiscal 2018-19, TBF provided advice and recommendations on various measures meant to help restrain the rate of spending growth. Examples include:
  - Managing public sector compensation, including the salary restraint;
    - The salary restraint for non-union employees (management, opted out, and excluded) has been in place since 2016.
    - The salary restraint also applies to key public agencies.
  - Extending the agreement with the Alberta Pharmacists' Association to March 31, 2022 and reaching a two-year funding agreement with the Alberta Medical Association that saves $95 million in health-care costs.

Ensuring effective tax administration

- Processed more than 337,000 corporate and commodity returns and approximately 9,000 benefit claims.
- Recorded $9.4 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.
- Continued to promote compliance with Alberta's corporate and commodity tax programs with the recovery of more than $36.3 million through tax audits.
- Between April 1, 2018 and March 31, 2019, TBF issued 352 default tax assessments for a total value of $10.2 million (includes principal, penalties and interest).
- Received a total of 224,694 tax returns which were filed using the ministry's net file system, constituting 90 per cent of all corporate income tax returns. As of March 31, 2019, 73 per cent of Tourism Levy returns, 81 per cent of International Fuel Tax Agreement returns, 100 per cent of Health Cost Recovery reports, 100 per cent of Insurance Tax returns, 100 per cent of Emergency 911 Levy returns, and 100 per cent of Carbon Levy Remitter Returns were submitted electronically. The ministry is committed to promoting and increasing the use of electronic services to improve the efficiency and effectiveness of government's tax administration.
- Continued to reunite owners with their unclaimed property. In 2018-19, 412 cheques were issued with a total value of $1.3 million. As of March 31, 2019 there were approximately 256,390 items in the Unclaimed Property Repository with an estimated value of $96 million.

- As of August 27, 2018, the Office of the Auditor General, Alberta (OAG) concluded that the department had successfully implemented recommendations regarding the systems to collect outstanding corporate income taxes and compliance systems for corporations who failed to file their income tax returns. The recommendations were related to developing both internal and external performance measures; updating and maintaining policies, procedures, and training; improving management information, analyzing tax data, dealing with the backlog of files submitted for write-off, and developing strategies for low-value accounts; and implementing compliance systems for unfiled corporate income tax returns.
- In 2018-19, representatives from TBF met twice with Alberta tobacco collectors to discuss the administration of the *Alberta Tobacco Tax Act*.

Ensuring transparent, accountable and efficient government

- TBF is frequently in communication with Controller's Offices in other jurisdictions to exchange ideas and information, which enabled TBF to evaluate and improve work processes.
- Provided feedback and commentary on the proposed changes to Public Sector Accounting Standards. This gives TBF the opportunity to work with the Public Sector Accounting Standard Board and participate in improving accounting standards for public sectors.
- On April 1, 2018 all HR staff were brought together under the PSC to support efficient, consistent, and coordinated HR services across government while achieving savings.

Efforts to maintain strong credit rating for the province

- To support the province's borrowing from the international market and to further diversify funding sources, TBF engaged Fitch Ratings Inc. to provide a new ratings coverage on Alberta's credit. In June 2018, Fitch published its initial credit rating for the province of AA (long-term) with a stable outlook.
- With the addition of Fitch Rating, four international credit rating agencies have provided public credit ratings for Alberta as a debt issuer.

Supporting Alberta's small liquor manufacturers, the gaming industry and cannabis legislation

- Continued to work with Alberta Gaming, Liquor and Cannabis Commission (AGLC) to support the rapid growth of the craft brewing industry. This work had uneven results.
- Implemented, in partnership with AGLC, a recreational cannabis retail and distribution framework according to the recommendations developed through consultation with the public, as well as federal stakeholders that best serves the interest of Albertans.
- Partnered with AGLC to review policies that meet the needs of constantly-evolving liquor and gaming industries while ensuring public safety and benefit. AGLC continued to work with stakeholders to find ways to modernize policies and explore opportunities that lead to progressive developments in these industries.

Provincial Bargaining Coordination Office

- The Provincial Bargaining Coordination Office (PBCO) researched, prepared and updated bargaining mandates for relevant bargaining tables in the 2018-19 round (Health Care, Education, Post-Secondary Education and the Alberta Public Service). Mandates reflecting the government's fiscal and public policy interests were reviewed and approved by the government and subsequently issued to all affected public sector employers for bargaining. PBCO also provided negotiation support, system assurance and coordinated with employers to ensure optimal bargaining outcomes.
- In 2018-19, agreements were concluded on behalf of the Alberta Public Service, Alberta Health Services (Direct Nursing, Paramedical Professional/Technical, Auxiliary Nursing Care and General Support Services), and the Alberta Teachers' Association.
- On October 23, 2018, TBF ratified a new collective agreement for the period of April 1, 2017 to March 31, 2020 between the Government of Alberta and the Alberta Union of Provincial Employees (AUPE). These agreements left year three open to binding arbitration rather than stipulating a percentage change. This creates some uncertainty for the budgeting process.

Supporting the Alberta Public Service

The APS is committed to a diverse and inclusive workplace that represents the broader provincial population in order to understand, respond, and effectively serve an increasingly diverse Alberta.

- Developed a three-year Diversity and Inclusion Plan to support a healthy, positive, diverse and inclusive workplace. The action plan includes programs to help remove barriers that may prevent qualified individuals from joining and advancing their careers with the APS.
- Gathered demographic information as a part of the 2018 APS Employee Survey to better understand and support the APS. Survey results show that the ENGAGE: Our Alberta Public Service People Strategy is having a positive impact. Specifically, results show that employees feel valued, treated fairly, and respected at work.
- Launched the Indigenous Learning Initiative to provide APS employees with knowledge about the historical and contemporary experiences of Indigenous peoples.

Discussion and Analysis of Results

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

Results and contributions from 2018-19:

TBF continued to play an important role in providing recommendations and analysis on the province's economic and fiscal development, managing the government's financial functions, and ensuring that tax and revenue programs, cost-saving initiatives, and borrowing and investment strategies maintain a sustainable financial foundation to support government operations, public service and economic development.

Economic forecasts and analysis

Alberta's economic recovery continued through the first half of fiscal 2018-2019, but slowed momentum in the second half due to oil price volatility and weaknesses in other parts of the economy. TBF played a key role during these challenging times by providing economic and revenue impact analysis and advice that contributed to the formulation and implementation of government policies. More specifically, the ministry:

- Provided regular economic and revenue forecasts, analysis and advice to senior officers and Treasury Board Committee in support of *Budget 2018* and quarterly fiscal updates.
- Conducted the inter-jurisdictional analysis on municipal funding, including the analysis of funding proposals from the City of Edmonton, the City of Calgary and numerous funding options for consideration by the province.
- Supported the development of a new funding agreement for the City of Edmonton and the City of Calgary, which has been legislated in the *City Charters Fiscal Framework Act* (2018). The new funding framework is linked to the province's revenue growth, helping to ensure that funding levels will be fiscally sustainable to the province.
- Supported Statistics Canada in the development of the 2018 Alberta Spatial Price Index. The Alberta Spatial Price Index is useful for the government and organizations in Alberta to make decisions on matters involving price differences in different communities, such as wage negotiations and cost of living adjustments.

Quick Fact

Published a variety of online economic publications throughout the year, including

- *Economic Review* (Weekly)
- *Alberta Economy – Indicators at a Glance* (Weekly)
- *Alberta Activity Index* (Monthly)
- *Economic Trends* (Monthly)
- *Labour Market Notes* (Monthly)
- *Demographic Statistics* (Quarterly)
- *Demographic Projections* (Annually)

- Participated in a review of economic impacts on Alberta's Petrochemical Diversification Program, Partial Upgrading Program and Petrochemical Feedstock Infrastructure Program.
- Provided economic impact analysis and assessment to support various key projects and initiatives in different ministries, as well as economic analysis to other ministries on an ad hoc basis.
- Produced demographic forecasts (i.e., short-term growth) for budget/fiscal updates and long-term projections (over the next 30 years) for Alberta and sub-provincial regions; developed a forecast model that helps estimate municipal population. Highlighted Alberta results on social issues (e.g., population, families, Aboriginal peoples etc.) from the 2016 Federal Census in published reports.
- Conducted presentations for various internal and external stakeholders about Alberta's economic and fiscal outlook.
- Implemented the recommendations as outlined in the completed business case of the Statistical Spatial Framework (SSF) Project in 2018-19. The SSF Project outlined a strategy to better analyze data spatially and enhance geospatial services to support government ministries.
- Led and coordinated the quarterly meetings of the Data Analyst Network (DAN). The DAN communicates the analytical initiatives that take place across government and disseminate information to GoA analysts more efficiently. It also creates more networking opportunities for analysts from GoA and external partners.

Performance Measure		2018-19 Target	2018-19 Actual
1.e Interprovincial tax comparison: Alberta's ranking		#1	#1
Explanation of Variance			
No changes.			
Prior Year's Results			
#1 2014-15	#1 2015-16	#1 2016-17	#1 2017-18
Trend			
Alberta continues to have the lowest overall taxes among the provinces, with no sales tax, health premium or payroll tax. In 2018-19, Albertans and Alberta businesses would have paid at least $11.2 billion more in taxes and carbon charges if Alberta had the same taxes and carbon charges as other provinces.			

Performance Measure		2018-19 Target	2018-19 Actual
1.f Interprovincial tax comparison for employment income up to $75,000: Alberta ranking (one income couple with two children)		#1	#1
Explanation of Variance			
No changes.			
Prior Year's Results			
#1 2014-15	#1 2015-16	#1 2016-17	#1 2017-18
Trend			
When all taxes are considered, Alberta families with $75,000 in employment income continue to pay lower overall taxes compared to other provinces.			

Performance Measure		2018-19 Target	2018-19 Actual
1.g Interprovincial government financial wealth comparison – Alberta ranking[1]		#1	#1
Explanation of Variance			
No changes.			
Prior Year's Results			
#1 2014-15	#1 2015-16	#1 2016-17	#1 2017-18
Trend			
Net debt (financial debt less financial assets) is widely considered the best measure for cross-jurisdictional comparisons of government financial health. Alberta continues to maintain its number one ranking among provinces in terms of net debt per capita. According to preliminary data for 2018-19, Alberta's net debt was $6,450 per capita, the lowest among provinces and about one-third of the ten-province average of $18,060 per capita.			

Note:

1. Balance sheet measure that shows the Government of Alberta's ability, comparing to other provinces, to meet its debt obligations. It measures the government's financial resiliance.

Cost saving and revenue initiatives

TBF provided information and advice to Treasury Board Committee and Cabinet on spending and revenue initiatives identified by ministries. We provided guidance and support to ministries as they worked to allocate resources to programs and projects, try to ensure that government resources were directed towards high priority areas. TBF also facilitated the spending allocation with ministries to ensure alignment with government priorities and the growth of operating expense below targets.

- Throughout fiscal 2018-19, TBF provided advice to ministries on various cost saving measures to help restrain the rate of spending growth, including:
  - managing public sector compensation - including ongoing hiring restraint, which helps to keep the size of the Alberta Public Service flat;
  - extending the agreement with the Alberta Pharmacists' Association to March 31, 2022 and reaching a two-year funding agreement with the Alberta Medical Association that saves $95 million in health-care costs.

Performance Measure		2018-19 Target	2018-19 Actual
1.a Sustainable operating spending[2] growth (operating expense relative to the rate of population growth plus CPI)[3]		Operating spending growth will not exceed population plus CPI growth.	3.4% (operating expense) 4.0% (population plus CPI)
Explanation of Variance			
Operating expense was slightly lower than the population plus CPI growth, primarily due to lower-than-expected spending in the Ministry of Health because of higher-than-anticipated savings from the a new agreement with Alberta's pharmacists, a new pricing agreement with Canada's generic drug industry and product listing agreement cost recoveries, and delays in opening continuing care beds. Lower agriculture indemnities in the Ministry of Agriculture and Forestry and staff vacancies across government also contributed to the variance. Going forward, there will not be these types of favorable variances for drugs.			
Prior Year's Results			
4.3% (operating expense) 4.3% (population plus CPI) 2014-15[4]	3.0% (operating expense) 2.7% (population plus CPI) 2015-16[4]	3.1% (operating expense) 2.4% (population plus CPI) 2016-17[4]	3.5% (operating expense) 2.8% (population plus CPI) 2017-18[4]
Trend			
Operating expense has exceeded population plus inflation for three of the past five years.			

Notes:

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

Debt and risk management

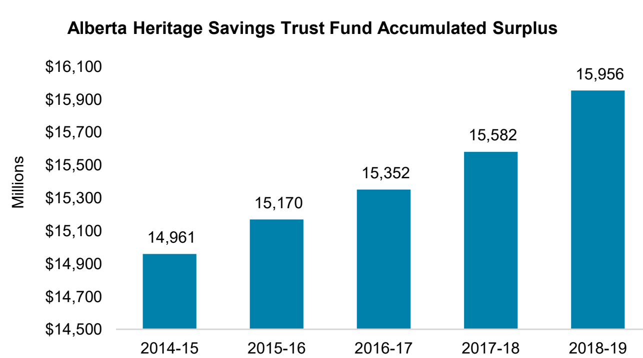
TBF is responsible for meeting financing requirements for the government's fiscal and capital programs, as well as the financing requirements for some provincial corporations. The province's borrowing program was successfully funded through both the domestic and international debt markets. As of March 31, 2019, approximately 45 per cent of this fiscal year's borrowing was completed in the domestic market, and 55 per cent from the international market. In 2018-19, TBF:

- Continued to manage the province's borrowing program prudently and efficiently through diversified sources of funding to take advantage of lower borrowing costs in other markets. In 2018-19, the province included Swedish, South African and Swiss bond markets to further diversify its funding sources and to achieve cost savings.
- Completed the government's annual borrowing program with $19.8 billion funded in 2018-19 (excludes money market debt), which included the province having pre-borrowed $6.5 billion for 2019-20. The province has financial commitments that extend into 2019-20 and beyond. The province pre-funded some of the borrowing requirements for 2019-20 in the previous fiscal year to take advantage of receptive global bond markets and low interest rate opportunities. This is a prudent strategy that ensures the province can meet its financial obligations.
- Continued to develop a diverse investor base, both domestically and internationally, to maintain and strengthen the demand for Alberta bonds.
- Implemented a number of new Credit Support Annexes (a collateral arrangement between two parties for derivative transactions) with financial institution counterparties to mitigate default and credit risks, as well as potential losses associated with credit swaps and derivative transactions. In order to manage the risks associated with the province's debt plan, the derivative-related products are not used in a speculative manner, as they are used to hedge interest rate and foreign currency risk when the province issues debt instruments.

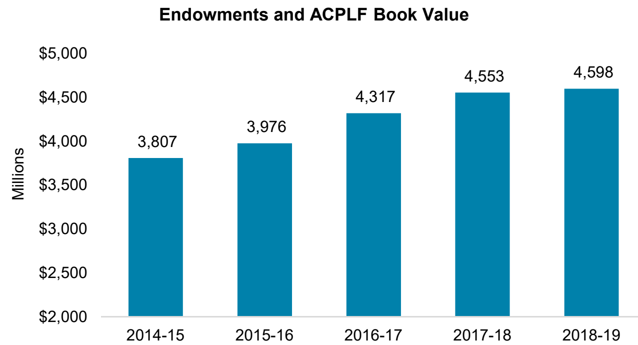
Investments

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

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



- Managed 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). The endowment and other funds provide funding for specific programs, for example, the AHSER provides income to the Ministry of Advanced Education, which in turn funds priority research efforts; the AHSF provides scholarships to thousands of secondary and post-secondary students in Alberta, assisting students to pursue further academic and trades education.



Performance Measure	2018-19 Target	2018-19 Actual
1.b The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5 per cent[5]	6.0%	8.8% (2.8% above target)

Explanation of Variance
The Heritage Fund five year annualized return continues to exceed the benchmark. Asset class diversification has benefitted the portfolio and helped in achieving better than expected returns for the Heritage Fund. These results are expected to normalize over the longer term.

Prior Year's Results			
11.7% (4.6% above target) 2014-15	10.5% (3.5% above target) 2015-16	11.0% (4.9% above target) 2016-17	10.4% (4.3% above target) 2017-18

Trend
The performance of the Heritage Fund has been higher than expected for much of the last ten years. It is anticipated that investment returns will normalize over the long term.

Note:

5. This measure is used to determine whether the long-term investment policy is achieving the returns expected based on long term capital market assumptions. It is measured by comparing the return on the policy benchmark to the real return target.

- During the year, AIMCo deployed an additional $44.1 million in investments made under the Alberta Growth Mandate. This resulted in the total committed in investments being $406.2 million, up from $362.1 million at March 31, 2018.

Performance Measure		2018-19 Target	2018-19 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)	1.2% (5-year average)
Explanation of Variance			
Active management over the last five years has resulted in an overall return on the portfolio that is 1.2% higher than the benchmark and 0.2% higher than the active management target return of 1% over a five year period.			
Prior Year's Results			
0.5% 2014-15	1.3% 2015-16	0.9% 2016-17	0.9% 2017-18
Trend			
Performance will vary year over year, but over the long run it is expected to be around the 1% level.			

Optimization of the tax system and technologies

Continued to advance electronic services for tax and revenue programs, which enable convenient interaction for taxpayers with the government outside of traditional business hours, streamline processes for the government to collect revenues, and minimize the administrative burden for participants in tax and revenue programs. In 2018-19, TBF:

- Continued efforts to upgrade the tax system. Notice of Objections can now be submitted electronically for carbon levy and fuel tax programs. This simplifies the process of submitting a notice of objection and supporting documents for review.
- Implemented electronic filing for the Fuel Tax program and Tobacco Tax program using Tax and Revenue Client Self-service (TRACS). Electronic filing is convenient, secure and efficient. It allows taxpayers and claimants to file outside of regular business hours and reduces reporting errors.
- In support of the introduction of the Interactive *Digital Media Tax Credit Act*, the corporate income tax return (AT1) was amended to provide eligible taxpayers the ability to deduct this credit from their tax payable.

Performance Measure	2018-19 Target	2018-19 Actual
1.d Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)	9.0:1[6]	15.1:1

Explanation of Variance

The ratios for 2018-19 and 2014-15 exceeded the target of 9:1. This was due to significant interest and penalty recoveries made by applying reassessments in Alberta similar to those used by the Canada Revenue Agency at the federal level.

Prior Year's Results

2014-15	2015-16	2016-17	2017-18
16.6:1	7.0:1	9.1:1	10.0:1

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:

6. The ratio was modified in 2018-19 to no longer include principal recoveries made on behalf of the Canada Revenue Agency. The prior year's results have been revised using the new methodology.

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

Results and contributions from 2018-19:

TBF is responsible for the policy and regulatory oversight for the liquor, gaming, cannabis, financial, securities, insurance and pensions sectors in Alberta. The ministry regularly scans the market environment to ensure policies and regulations are up to date, public interest is protected, and that the liquor, gaming, cannabis, financial, securities, insurance and pensions sectors grow healthily and steadily.

Liquor, gaming and cannabis

In the past year, TBF has made significant contributions to the legalization of cannabis by working with AGLC to develop and implement policies to regulate the cannabis market in Alberta. The ministry will continue to work with AGLC to promote modernization and responsible growth of Alberta's liquor, gaming and cannabis industry. In 2018-19, TBF:

- Worked closely with AGLC and federal, provincial and territorial (F/P/T) counterparts to successfully legalize dry cannabis on October 17, 2018. The *Gaming and Liquor Statutes Amendment Act* was passed in the legislature on May 30, 2018, providing AGLC the tools necessary to oversee and enforce Alberta's cannabis market. Alberta's comprehensive 'Know the Rules' campaign and its ongoing collaboration with F/P/T counterparts and AGLC's robust licensing and regulatory regime, positioned Alberta as Canada's leading province in the implementation of the legalization of cannabis.
- Throughout 2018-19, TBF worked closely with AGLC, Economic Development, Trade and Tourism and Justice and Solicitor General to manage and address the complex legal challenges and litigation activities resulting from the government's decision to implement small brewer program that was subsequently deemed non-compliant by the Alberta Courts. TBF announced the cancellation of the Alberta Small Brewer Development Program in November 2018 and worked with other ministries and AGLC to support the development and implementation of the Small Liquor Manufacturers Program, introduced in December 2018.
- Worked with its F/P/T counterparts and AGLC on Cannabis Phase Two – the legalization of cannabis edibles, extracts and topicals targeted for October 17, 2019. Health Canada provided draft regulations for cannabis edibles, extracts and topicals in December 2018 to all provinces and territories, inviting feedback on the draft regulations. Alberta prepared a comprehensive consolidated response to Health Canada in late February 2019.
- As Health Canada has been working with all jurisdictions on the legalization of cannabis edibles, extracts and concentrates, TBF continued working on Alberta's Cannabis Framework which focuses on four policy priorities:
  - keeping cannabis out of the hands of children and youth
  - protecting safety on roads, in workplaces and in public spaces
  - protecting public health
  - limiting the illegal market for cannabis

- Provided feedback to Health Canada on key issues regarding the legalization of cannabis edibles extracts and topicals, such as:
  - Packaging and labelling
  - Production facilities
- Supported and provided oversight to Horse Racing Alberta (HRA) and the Horse Racing Appeal Tribunal (HRAT); and, worked closely with government recruitment professionals to address board and appeal tribunal membership needs.

Accessible capital for Albertans

Working with ATB Financial, TBF promotes Alberta's economic diversification and sustainable growth through continuous financial incentives and supports. ATB Financial is committed to promoting entrepreneurship and financing small- and medium-sized enterprises (SMEs) in Alberta. In 2018-19:

- ATB Financial made more than 9,900 new loans to SMEs with a value of approximately $2.7 billion. This is a decrease of almost 3,400 loans over its previous fiscal year. ATB Financial's total loans outstanding to SMEs in Alberta are more than $9.1 billion as of March 31, 2019.

Performance Measure		2018-19 Target	2018-19 Actual
2.a ATB Financial return on average risk weighted assets		0.8%	0.38%
Explanation of Variance			
The measure has declined due to economic conditions impacting ATB Financial's net income. The decline is primarily due to a realized higher provision for loan losses in 2018-19.			
Prior Year's Results			
1.10% 2014-15	0.33% 2015-16	0.45% 2016-17	0.81% 2017-18
Trend			
The expectation is for modest improvements as 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 insurance, pension and financial institution sectors remain relevant and fair, and serve the interests of Albertans. Policy and regulatory oversight supports these areas to modernize and meet the growing needs of Albertans, and evolve with emerging trends and issues. In 2018-19, TBF:

- Private sector single employer defined benefit pension plans applied to the Superintendent of Pensions to extend the amortization period from five years to up to 10 years for solvency deficiencies in order to moderate the negative impact of low interest rates. This allows pension plans to be more sustainable in the longer term. A total of 61 plans were granted extensions of 8 to 10 years.

- Proactively worked with Alberta Justice and Solicitor General in facilitating the extension of pension credit splitting on relationship breakdown to common law spouses. Following a judicial decision, the division of pension benefits under *Alberta's Employment Pension Plans Act* concerning common law spouses is now consistent with other pension jurisdictions in Canada
- The *Employment Pensions Plans Act* (EPPA) requires pension plans to provide more detailed and transparent reporting to members that will be implemented in the next two years. EPPA expands the scope of the standards on disclosure to members, and provides members recourse to request data and information from the plan administrator.

Performance Measure		2018-19 Target	2018-19 Actual
2.b Employment pensions funded ratio[7]		100%	108.18%[8]
Explanation of Variance			
Most of the improvement is due to better investment returns than predicted.			
Prior Year's Results			
102.18% 2014-15	104.56% 2015-16	102.70% 2016-17	106.81% 2017-18
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 marginally due to the low interest rate environment.			

Note:

7. Funded ratio indicates the degree to which assets cover liabilities. Plans must be at least 100 per cent funded on an ongoing basis.

8. As of March 1, 2019, the Local Authorities Pension Plan, the Public Service Pension Plan and the Special Forces Pension Plan were no longer included in this performance measure.

- May 2018 marked the two-year anniversary of the Regional Municipality of Wood Buffalo wild-fire. In order to ensure all affected Alberta families and businesses had recourse for their wildfire claims, extensions were secured by the Office of the Superintendent of Insurance for over 2,500 residential property insurance claims for one year beyond the statutory limitation applicable to wildfire claims. The Superintendent also urged insurers to resolve outstanding claims prior to May 3, 2019.
- Monitored automobile insurance system reviews and changes in British Columbia, Nova Scotia, Newfoundland and Labrador, and Ontario to keep abreast of developments and best practices. An understanding of emerging trends and issues in Canadian automobile insurance systems is important in considering options to Alberta's system, which has seen rapid growth of costs.

- Worked with the insurance industry and other stakeholders to investigate cost pressures and potential improvements to the automobile insurance system to ensure long-term sustainability while keeping automobile insurance fair and accessible for Albertans. This included the retention of an independent contractor to conduct an automobile insurance claims and costs study.
- Seven insurance regulations were renewed, and amendments were made to the Minor Injury Regulation to clarify the definition of sprain, strain and whiplash injuries and how those injuries may manifest in automobile collision victims.

Performance Measure		2018-19 Target	2018-19 Actual
2.c Alberta incorporated insurance companies rated as stable by the Superintendent of Insurance		100%	91%
Explanation of Variance			
Of the 11 insurers supervised by the Superintendent, one has shown deteriorating capital and a net loss three years in a row. The Superintendent is monitoring this insurer's financial performance and capital position closely. The company has provided the Superintendent with a plan to improve its position and is currently taking steps to implement this plan.			
Prior Year's Results			
100%	100%	100%	100%
2014-15	2015-16	2016-17	2017-18
Trend			
Like other regions in Canada, the property and casualty market in Alberta has faced increasing claims costs in both property and automobile insurance lines over the last five years. The Superintendent of Insurance continues to work closely with provincial insurance companies to monitor stability and to understand and support the mitigation of risks faced by each entity.			

Securities regulatory system

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

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

- The *Securities Act* was amended in 2018-19. The *Securities Act* has been typically amended annually, to ensure that Alberta's securities laws continue to remain up to date and are harmonized with other provinces and territories and internationally.
- The amendments in 2018 included:
  - implementing a whistleblower program for Alberta's capital market;
  - protecting investor's right to privacy by preventing ASC members, staff or agents to testify in third party proceedings, such as civil law suits;

- introducing a regulatory regime for benchmarks, compatible with other provinces and the European Union, providing investors and lenders more certainty that benchmarks used in financial contracts are not manipulated; and
- implementing other harmonization amendments.

Outcome Three: Excellence in government accountability and transparency

Results and contributions from 2018-19:

Strengthening the government's financial stewardship requires the ministry to reflect government's accountability and transparency in formulating policies and programs, 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 executive summary to the government annual report, consistent with legislation and public sector accounting standards.

- Continued to coordinate the comprehensive plan to balance the budget by providing timely, reliable and relevant fiscal advice and recommendations. The fiscal plan and estimates data are provided in an open data format for *Budget 2018*, *Budget 2019* and for 2018-19 Quarterly Fiscal Updates.

Business planning and performance measurement

Collaborating with the planning and reporting groups across government, TBF recommends and promotes best practices in both business planning and performance reporting that communicate government's vision, initiatives, and accountability. In 2018-19, TBF:

- Continued to work with all ministries to revise standards and expectations for government's planning and reporting framework. The Ministry Business Plan Standards 2019-22 were revised in October 2018 reflecting further guidance on the development and presentation of ministry business plan contents.

Financial reporting and disclosure

TBF facilitated the preparation of financial statements in accordance with Canadian Public Sector Accounting Standards. It was one of the major contributions of the ministry in achieving transparency and accountability in reporting on government's performance.

- Evaluated and redesigned ministry annual reporting standards for the 2018-19 reporting year. The requirement for ministries to provide consolidated financial statements as part of each individual ministry annual report has been replaced with key financial information, including a financial highlights section for a deeper analysis and narrative around ministries' financial results. Ministries' revenues and expenses are clearly linked to Government Estimates and Fiscal Plan and tie directly back to the Government of Alberta Consolidated Financial Statements, strengthening accountability and transparency.
- Continued to lead the government's annual budget and quarterly fiscal update process and provide regular public reports on the consolidated fiscal plan as required by the *Fiscal Planning and Transparency Act*. The timely, reliable and relevant presentation of financial information enabled Alberta to receive an A+ rating in a fiscal accountability study by the CD Howe Institute.

- 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		2017-18 Target	2017-18 Actual
3.a Financial reporting: ● Auditor General opinion on Government of Alberta Consolidated Financial Statements[9]		Unqualified	Unqualified
Explanation of Variance			
Target met.			
Prior Year's Results			
Unqualified 2013-14	Unqualified 2014-15	Unqualified 2015-16	Unqualified 2016-17
Trend			
Consistently met the highest standard of an unqualified opinion from the Office of the Auditor General (OAG).			

Note:

9. 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.

Performance Measure		2017-18 Target	2017-18 Actual
3.b Meet statutory deadlines for financial reporting		Yes	Yes
Explanation of Variance			
Target met.			
Prior Year's Results			
Yes 2013-14	Yes 2014-15	Yes 2015-16	Yes 2016-17
Trend			
Consistently published required financial reports by the applicable statutory deadline.			

- Provided guidance on the newly adopted accounting standard on restructuring to ensure compliance with public sector accounting standards and facilitated workshops to ensure consistent application of accounting standards and policies across government.
- Improved government's year-end reporting by adding ministry specific financial information to the Government of Alberta Consolidated Financial Statements.

Operational efficiency and effectiveness

The government is modernizing how the public service delivers corporate services. This includes improving governance, organizational structures, business processes and technologies. Initiatives such as the Process Review and Renewal, Enterprise Resource Planning, and Financial Services Delivery Model will create opportunities to streamline how TBF provides valuable information and supports strategic decision-making.

- Supported corporate services consolidation and modernization initiatives, such as the reorganization of Freedom of Information and Protection of Privacy and Information Management and Technology from departments to Service Alberta, with the aim of achieving efficiencies and effectiveness across government.
- Continued to support the development and implementation of government's ERP system. TBF has been working with ministries to understand the functionality and design of Accenture Enterprise Services for Government (AESG). During 2018-19, this included:
  - working through due diligence with Accenture, to confirm that both parties were prepared for the transformation;
  - finalizing a process workflow for the near-future state of budgeting and forecasting for the government;
  - joining the Office of the Controller (OOC), ministry finance officials, the ERP team and Accenture in a joint study of AESG functionality in a series of conference room pilots, and
  - working with Accenture, the ERP team and the OOC on initial design of data elements to support and maintain data integrity and coherence.
- OOC has been working with the ERP team and Chart of Accounts committee in the development of standardized chart of accounts and the consolidation process.

Support public agency best practice

- A review of public agencies was conducted between 2015 and fall 2018. 66 Agencies, Boards and Commissions (ABCs) were dissolved or amalgamated. The *Reform of Agencies, Boards and Commissions Compensation Act* (RABCCA) was passed in 2016. The RABCCA Regulation which caps compensation, including salaries and benefits for certain executives at designated public agencies was passed in 2017. Compensation for the presidents of 20 public post-secondary institutions was capped under the Post-Secondary Institution Compensation Regulation in 2018.
- Alberta's *Conflicts of Interest Act* was expanded in 2017.

Ensure a diverse range of qualified candidates to public agencies

- In 2016, the electronic Public Agency Appointments System (e-PAAS) online registry was established for online applications. In 2017, a voluntary, anonymous diversity survey was added to e-PAAS System.

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

Results and contributions from 2018-19:

The PSC continued to provide HR services to government departments to support a diverse and engaged workforce, as well as modernizing the HR system.

Ensure a diverse and inclusive workforce

- A Diversity and Inclusion Policy for the APS has been in place since October 2017. A diversity and inclusion plan was developed to support a healthy, positive, diverse and inclusive workplace.
- The 2018 employee survey included questions for employees to self-identify with one or more diversity groups and an inclusivity index in order to better understand and better support a diverse and inclusive APS.
- The overall inclusivity index of employees is 69 per cent, which is higher than the Canadian Centre for Diversity and Inclusion Benchmark. Seventy four per cent of employees agree that their workplace is committed to and supportive of diversity and they are treated fairly and with respect.
- A Respectful Workplace Policy for the APS has been in place since February 2015 and was updated in 2019.
- An Indigenous Learning Initiative was collaboratively developed by the PSC, Indigenous Relations, Education, and Children's Services in consultation with Indigenous Scholars, organizations, Elders and communities.
- A new collective agreement between the Government of Alberta and the AUPE was ratified on October 23, 2018. The agreement includes gender neutral language and includes measures to determine if gender-based pay equity issues exist.

Improve employee engagement across the Alberta Public Service

- Supporting employee engagement in the APS is crucial to sustaining a high performing workforce and enabling employees to do their best work and provide the highest level of service to Albertans. The Government of Alberta has assessed employee engagement through an employee survey since 1997, with the last full APS employee survey conducted in 2018. The survey is currently administered every two years.
- The six engagement drivers that formed the basis of the ENGAGE: Our APS People Strategy developed in 2017, were assessed again in 2018 amongst the other 14 drivers. Survey results show that the strategy is on the right track with employees reporting that they feel included, valued, and treated fairly and respectfully at work. The results also show a need to make improvements in the areas of innovation, career growth, and learning and development.
- Based on the results, the strategy was refreshed, with a continued focus on three priorities: Connect, Lead and Learn. Programs and initiatives will continue to build on successes and expand to focus on innovation, career growth, and learning and development. The next full employee engagement survey is planned for 2020.

Improve the efficiency and functionality of the government's human resource system

On April 1, 2018, all HR services across the Government of Alberta were consolidated under the PSC.

The strategic pillars of HR modernization include:

- promoting strong leadership and governance;
- delivering efficient and consistent services;
- supporting an agile and engaged workforce; and
- leveraging technology.

Once fully implemented, the HR model is expected to save up to $11 million over three years..

Performance Measure		2018-19 Target	2018-19 Actual
4.a Alberta Public Service Employee Engagement Index		65%	59%
Explanation of Variance			
The 59 percent engagement score result is one percentage point lower than the 2015-16 result of 60 per cent and six percentage points below the 65 per cent target set for 2018-19. The result is attributed to employees' sentiment that there needs to be more support for innovation, career growth, and learning and development.			
Prior Year's Results			
59%	N/A[10]	60%	N/A[10]
2013-14	2014-15	2015-16	2016-17
Trend			
The 2018-19 result of 59 per cent is consistent with the results of 59 per cent and 60 per cent achieved in 2013-14 and 2015-16 respectively.			

Note:

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

Performance Indicator	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Actual
4.a Employee engagement index inter-jurisdictional average[11]	62%	59%	63%	64%	65%
Trend					
The inter-jurisdictional employee engagement index has been increasing since 2014-15. Alberta's results are lower than the inter-jurisdictional trend and average.					

Note:

11. Beginning in 2013-14, the Employee Engagement Index has been reported based on a seven-question model. The 2018-19 results for indicator 4.a will not be available until fall 2019.

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

Results and contributions from 2018-19:

In September 2017, the government consolidated communications and marketing functions into a single organization: Communications and Public Engagement (CPE).

CPE is government's full-service communications, public relations and marketing office. Its mandate is to enhance communications between GoA and Albertans

Consolidation of communications

The consolidation of government's external communications, web and marketing units into CPE led to cost savings and improved communications outcomes.

In 2018-19, CPE branches at each ministry provided department-specific communications support with the benefit of centralized shared resources to support their work, along with a more straightforward organizational structure and clearer lines of accountability.

This support included strategic advice provided to ministries to support submissions to Cabinet and its committees, public opinion survey results, public engagement advice and support, social media tracking and analysis, and assistance with public announcements.

Expanded forms of communications

CPE has expanded inclusive and alternate forms of communications for non-English speakers, literacy challenged and vision- and hearing-impaired audiences.

CPE has begun translating priority alberta.ca content into Arabic, Chinese (traditional and simplified), Spanish, Punjabi and French.

Alberta.ca meets level AA of the WCAG 2.0 specification. This makes content accessible to a wide range of people with disabilities, including blindness and low vision, deafness and hearing loss, learning disabilities, cognitive limitations, limited movement, speech disabilities and photo sensitivities.

Government information presented across a spectrum of platforms

CPE effectively, efficiently and consistently presents government information across a spectrum of platforms including advertising, web, social media, text, email, signage, mail, print, video, graphics and audio, and media.

In 2018-19, information about programs and services from 21 ministry websites was migrated to Alberta.ca. This reduced maintenance costs and improved user experience by giving government services online a consistent look and feel. As part of the migration, approximately 20,000 web pages were reviewed and updated to provide Albertans with a website that is easier to read, navigate and use. Average monthly traffic to Alberta.ca grew by 85 percent over the 2018-19 fiscal year.

CPE also led the Government of Alberta's market access campaign that included web, marketing, social media, video, petitions, a letter-writing campaign, posters and advertising, as well as a host of innovative tactics, such as projecting live ads on the sides of buildings.

Support for Trans Mountain increased over the period the campaign was in market. Public polls taken in

July of 2017 – at the start of the campaign – showed net support [those in favour – those opposed] to be +26. In January, just before the campaign went on pause for the election period, net support was +35. This is mirrored in the Government of Alberta's polling.

Crisis communications

CPE is responsible for providing crisis communications coordination and support in times of emergency.

In 2018-19, CPE staff participated in regular training to be able to quickly mobilize and meet communications needs during emergencies.

Performance Measure		2018-19 Target	2018-19 Actual
5.a Alberta.ca sessions per million population[12]		1.2	3.0
Explanation of Variance			
Department websites were migrated to Albertca.ca throughout 2018-19 and traffic to Alberta.ca increased as a result.			
Prior Year's Results			
N/A 2014-15	N/A 2015-16	0.94 2016-17	N/A 2017-18
Trend			
There has been an upward trend in the past three years.			

Note:

12. A session is a group of user interactions with a website – such as page views or ecommerce transactions – that take place within a given timeframe. For this measure we consider only sessions originating in Alberta.

Performance Measure		2018-19 Target	2018-19 Actual
5.b Proactive and reactive communications to Albertans via government channels (in millions)[13]		51.0	80.8
Explanation of Variance			
Variance is due to growth in website traffic from the migration of department websites to Alberta.ca and increased use of social media to communicate with the public.			
Prior Year's Results			
N/A 2014-15	N/A 2015-16	N/A 2016-17	N/A 2017-18
Trend			
No prior year's data.			

Note:

13. Government interaction with the public, predominately through web and social media communications, measured in million impressions.

Performance Measures Methodology

Performance Measure 1.a:

Sustainable operating spending growth (operating spending relative to population plus CPI)

Methodology
■ Growth in operating expense is calculated based on data taken from the Government of Alberta's 2018-19 Final Results Year-End Report. ■ Population growth is calculated by taking the annual change in population at the midpoint of the fiscal year (October 1). ■ Inflation is the year over year growth in the average of the Alberta Consumer Price Index over the fiscal year (April to March).
Source
Growth in operating expense, population and inflation is calculated by Alberta Treasury Board and Finance.

Performance Measure 1.b:

The Alberta Heritage Savings Trust Fund (Heritage Fund) will earn a five-year annualized rate of return of CPI plus 4.5 per cent

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

Performance Measure 1.c:

Investment returns in excess of the benchmark through active management, for the endowment and pension funds, annualized over a five-year period

Methodology
■ The performance measurement system employed by AIMCo calculates a total return 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.

Performance Measure 1.d:

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

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

Performance Measure 1.e:

Interprovincial tax comparison: Alberta's ranking

Methodology
■ Total additional provincial tax and carbon changes that individuals and businesses would pay if Alberta had the same tax system and carbon changes as other provinces.
Source
Alberta Treasury Board and Finance.

Performance Measure 1.f:

Interprovincial tax comparison for employment income up to $75,000: Alberta ranking (one income couple with two children)

Methodology
■ Total additional provincial tax and carbon changes that families with employment income up to $75,000 (one income couple with two children) would pay if Alberta had the same tax system and carbon changes as other provinces.
Source
Alberta Treasury Board and Finance.

Performance Measure 1.g:

Interprovincial government financial wealth comparison – Alberta ranking

Methodology
■ The total value of government's financial assets minus the total value of outstanding liabilities, compared with all provinces on per capita basis.
Source
Alberta Treasury Board and Finance.

Performance Measure 2.a:

ATB Financial return on average risk weighted assets

Methodology
■ Net Income / Average Risk Weighted Assets
Source
Net income - as per annual report. Average Risk Weighted Assets - per internal reporting systems.

Performance Measure 2.b:

Employment pensions funded ratio

Methodology
■ This is the average of all the defined benefit pension plans funded ratio based on the latest actuarial valuation filed with Employment Pensions. Depending on when the last valuation is filed, the data can be up to three years late as plans file every three years.
Source
Actuarial valuations filed with Employment Pensions and loaded onto our internal database.

Performance Measure 2.c:

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

Methodology
■ Insurers' Minimum Capital Test (MCT) scores are reported quarterly by insurers in their quarterly filings with the Superintendent of Insurance, and when the score exceeds our threshold of 210%, insurers are considered stable. Scores are also compared to the average MCT reported by the Office of the Superintendent of Financial Institutions regulated insurers for context with the rest of Canada.
Source
Insurers provide MCTs to the Superintendent of Insurance on a quarterly basis.

Performance Measure 3.a:

Financial reporting:

- **Auditor General opinion on Government of Alberta Consolidated Financial Statements**

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.

Performance Measure 3.b:

Meet statutory deadlines for financial reporting

Methodology
■ Financial reporting statutory deadlines ensure timely reporting of information. Meeting the statutory deadlines demonstrates to the public that government has responsible financial practices and is compliant with its legislation.
Source
Alberta Treasury Board and Finance.

Performance Measure 4.a:

Alberta Public Service Employee Engagement Index

Methodology
■ The Employee Engagement Index is comprised of seven outcome statements where survey respondents choose on a scale of “strongly disagree” to “strongly agree” 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 per cent of respondents/employees who “agree” or “strongly agree” with each statement. Those percentages are then averaged to generate the overall index.
Source
2018 Employee Survey (Spring 2018)

Performance Indicator 4.a:

Employee engagement index inter-jurisdictional average

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 disagree” to “strongly agree” 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 2018

Performance Measure 5.a:

Alberta.ca sessions per million population

Methodology

- Divide Alberta.ca sessions for the period by the estimated Alberta population at the final quarter of the period.
- A session is a group of user interactions with a website that take place within a given time frame. A single session can contain multiple page views, events, social interactions, and transactions.
- Alberta.ca sessions are measured by Google Analytics. The number used for this measure is found on CPE's "Alberta Filtered" profile (which excludes sessions from government IP addresses), with the "Alberta visitors" segment turned on.
- Alberta's population can be found on the Alberta Economic Dashboard.

Source

Google Analytics (CPE's "Alberta Filtered" profile, "Alberta visitors" segment)

Alberta Economic Dashboard (https://economicdashboard.alberta.ca/Population)

Performance Measure 5.b:

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

Methodology

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

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

Source

Social media platforms (Facebook, Twitter, Instagram, YouTube)

Google Analytics (CPE's "Alberta Filtered" profile)

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Financial Information

Year ended March 31, 2019

Table of Contents

BLANK PAGE

Ministry Financial Highlights

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

Statement of Revenues and Expenses (unaudited)

	2019		2018	Change from	
	Budget	Actual	Actual	Budget	2018
		($ millions)	(Restated)		
Revenues					
Income taxes	$ 15,938	$ 16,747	$ 14,223	$ 809	$ 2,524
Other taxes	4,428	4,323	4,019	(105)	304
Transfers from Government of Canada	1,662	1,639	1,635	(23)	4
Investment income	2,593	2,014	2,827	(579)	(813)
Net income from government business enterprises	2,497	2,433	2,581	(64)	(148)
Premiums, fees and licences	178	172	195	(6)	(23)
Other revenue	430	504	475	74	29
Ministry Total	27,726	27,832	25,955	106	1,877
Inter-ministry consolidation adjustments	(159)	(181)	(156)	(22)	(25)
Adjusted ministry total	27,567	27,651	25,799	84	1,852
Expenses - Directly Incurred					
Programs					
Ministry Support Services	10	10	9	-	1
Budget Development and Reporting	5	6	5	1	1
Fiscal Planning and Economic Analysis	6	6	6	-	-
Investment, Treasury and Risk Management	725	804	749	79	55
Office of the Controller	3	3	2	-	1
Corporate Internal Audit Services	3	3	3	-	-
Tax and Revenue Management	47	36	46	(11)	(10)
Financial Sector and Pensions	191	186	181	(5)	5
Provincial Bargaining Coordination Office	2	2	2	-	-
Public Service Commission	79	72	76	(7)	(4)
Communications and Public Engagement	41	66	38	25	28
Gaming	44	44	41	-	3
Climate Leadership Plan - Consumer Rebates	525	523	301	(2)	222
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	232	224	221	(8)	3
Teachers' pre-1992 pensions - Payments	477	479	474	2	5
Pension recovery	(149)	(41)	(502)	108	461
Corporate income tax allowance adjustment	15	(46)	14	(61)	(60)
Debt servicing - school construction debentures	1	1	1	-	-
Debt servicing - Alberta Capital Finance Authority	373	373	258	-	115
Debt servicing - general government	1,421	1,492	1,030	71	462
Ministry Total	4,051	4,243	2,955	192	1,288
Inter-ministry consolidation adjustments	(343)	(225)	(197)	118	(28)
Adjusted ministry total	3,708	4,018	2,758	310	1,260
Annual Surplus	$ 23,859	$ 23,633	$ 23,041	$ (226)	$ 592

Revenue and Expense Highlights

Actual to budget comparison

Revenue
(*$ millions*)

2018-19	2018-19
Actual	Budget
$27,832	$27,726

Revenue for the ministry was $106 million, or 0.4 per cent higher than budget.
Comparison of actual to budget revenue results

- Personal income tax revenue was $488 million higher than budget as the personal income tax base was higher than anticipated.
- Corporate income tax revenue, along with related interest and penalties, was $321 million higher than budget due to corporate earnings being higher than anticipated.
- Other tax revenue from all sources was $105 million lower than budget. The largest variances were due to lower than anticipated consumption in Tobacco tax, Fuel tax, and Carbon levy which were $33 million, $20 million and $32 million lower than budget, respectively. In addition, Insurance taxes were $30 million lower than budget due to lower growth in insurance premiums than anticipated. This was offset by higher than expected AGLC purchases of cannabis inventory and a higher than anticipated tourism Levy.
- Transfers from the Government of Canada were $23 million lower than budget predominantly due to less funding from the Canada Social Transfer as it is based on the Province's share of the national population which was lower than anticipated.
- Investment income was $579 million lower than budget due to financial market performance being weaker than originally anticipated due to a global market downturn in public equities during the third quarter.
- Net income from government business enterprises was $64 million lower than budget primarily due to decreased income from ATB Financial of $103 million due to an increase to the provision for loan losses. This is partially offset by AGLC's $39 million higher than budgeted income due to higher sales than anticipated combined with operating expense savings.
- Premiums, fees and licences were $6 million lower than budget predominantly due to ATB Financial net income being lower than anticipated resulting in less revenue from ATB Financial for the payment in lieu of taxes.
- Other revenue was $74 million higher than budget due to AIMCo incurring higher external third party investment management and performance fees recovered from clients than originally anticipated.

Expenses
(*$ millions*)

2018-19	2018-19
Actual	Budget
$4,243	$4,051

Expenses for the ministry were $192 million, or 5 per cent over budget.
Comparison of actual to budget expense results

- Investment, Treasury and Risk Management expenses were $79 million higher than budget due to AIMCo incurring higher external third party investment fees and performance compensation than originally anticipated.
- Tax and Revenue Management is $11 million lower than budget due to less refund interest on corporate income taxes than what was anticipated in addition to operational savings.
- Financial Sector Regulation and Policy expenses were $5 million under budget due to savings from operational efficiencies in both the department and agencies.
- Public Service Commission is $7 million lower than budget due to higher vacancies as result of hiring delays pending HR transformation and operational savings.
- Communications and Public Engagement is $25 million higher than budget due to the Market Access campaign which was not included in the budget.
- The Scientific Research and Experimental Development Tax Credit is $8 million less than budget as result of lower program utilization than anticipated.
- The pension recovery was $108 million lower than originally budgeted. This original budget was higher due to LAPP and PSPP experiencing large returns in the prior year leading to surpluses in 2018 resulting in no liabilities for these plans.
- Corporate income tax allowance adjustment was lower than budget by $61 million due to analysis and back testing of previous estimates resulting in a downward adjustment to the allowance for doubtful accounts.
- General government debt servicing is $71 million higher than budget due to timing of borrowing based on cash flow requirements and increased cost of borrowing.

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

Revenue
(*$ millions*)

2018-19	2017-18
Actual	Actual
$27,832	$25,955

Revenue for the ministry was $1,877 million, or 7 per cent higher than in 2017-18.
Comparison of year-over-year results (actual to actual)

- Personal income tax revenue was $1,100 million higher than the previous year due to the impact of growth in wages and employment as the economy continues to recover from the economic downturn.
- Corporate income tax revenue along with related interest and penalties was $1,424 million higher than last year due to higher corporate earnings.
- Other tax revenue was higher than the previous year by $304 million predominantly due to the increase in the Carbon Levy and growth in Insurance tax by $278 million and $31 million, respectively. With the introduction of the Cannabis tax, there was an additional $30 million over the prior year from the first 5 ½ months of legalization. Tobacco tax revenue decreased by $34 million due to decreased consumption.
- Investment income was $813 million lower than the previous year due to the prior year experiencing stronger performance of investments as a result of a global public equity downturn in the third quarter of the current year.
- Net income from government business enterprises was $148 million lower than last year. Income from ATB Financial decreased by $139 million as there was an increase in the provision for loan losses. Income from AGLC was lower by $11 million due to a $34 million net loss from cannabis and a $6 million decrease to net income from liquor operations offset by an increase to net income from gaming by $29 million. Income from the Credit Union Deposit Guarantee Corporation (CUDGC) increased by $2 million.
- Premiums, fees and licenses decreased by $23 million compared to last year. This is primarily due to the decrease in income from ATB Financial resulting in decreased revenue from the payment in lieu of taxes.
- Other revenue was up by $29 million from last year due primarily to AIMCo incurring higher external third party investment management fees recovered from clients.

Expenses
(*$ millions*)

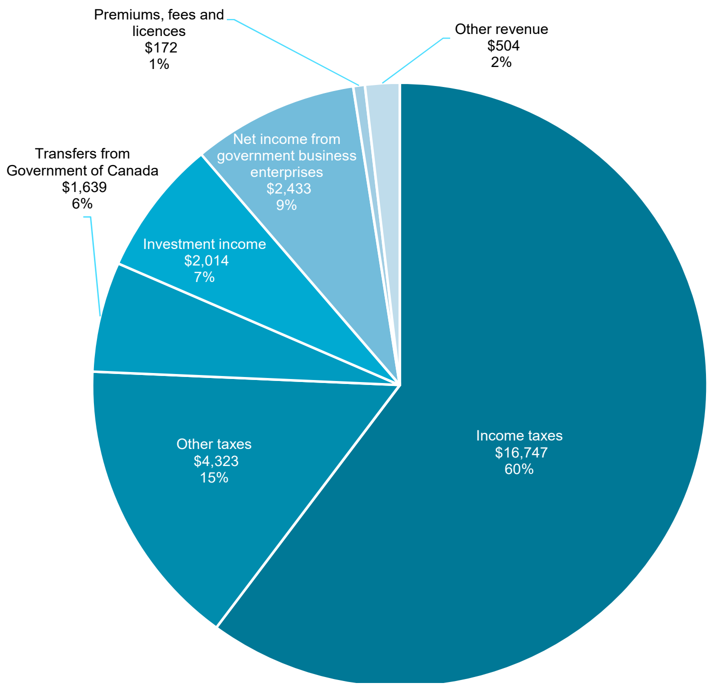
2018-19	2017-18
Actual	Actual
$4,243	$2,955

Ministry expenses were $1,288 million, or 44 per cent more than in 2017-18.
Comparison of year-over-year results (actual to actual)

- Investment, Treasury and Risk Management expenses were $55 million higher than last year. This is primarily due to AIMCo incurring higher external third party investment management and performance compensation.
- Tax and Revenue Management expenses decreased by $10 million from the prior year. This is due to less interest on Corporate Income tax refunds compared to the prior year.
- Financial Sector Regulation and Policy expenses increased by $5 million compared to prior year due to increased operational requirements of agencies.
- Communications and Public Engagement were $28 million higher than last year. This is due to the increase in expenses related to the Market Access campaign.
- The Climate Leadership Plan – Consumer Rebates were $222 million higher than prior year primarily due to the increase to the rates for the CLP rebate program to correspond with the increase to the carbon price from $20 per tonne to $30 per tonne.
- Teachers' pre-1992 pension liability funding increased by $5 million compared to prior year due to increased benefit payment requirements.
- The pension recovery decreased by $461 million in comparison to prior year. The recovery in current year is lower due to LAPP and PSPP being in a surplus position resulting in no liability in the current year, compared to large recoveries in the prior year when the plans first reported surpluses.
- The corporate income tax allowance adjustment decreased by $60 million. The decrease is due to analysis and back testing of previous estimates resulting in a downward adjustment to the allowance for doubtful accounts.
- Debt servicing costs for Alberta Capital Finance Authority and general government is $577 million higher than the prior year, which is largely based on the plan set out in Budget 2018.
- The remaining expenses increased $5 million over the prior year.

Breakdown of Revenues (unaudited)

The following information presents detailed revenue of the Ministry. The total Revenue for 2018-19 for Treasury Board and Finance was $27,832 million, an increase of $106 million from the budget.



Income taxes:
($16,747 million, or 60 per cent of the total revenue)
Income taxes remained the largest contribution to Treasury Board and Finance revenue.

- Income tax actuals were higher by $809 million, or 5 per cent higher from budget.
- Personal Income tax revenue was $11,875 million. This was $488 million or 4 per cent higher from budget.
- Corporate Income tax revenue along with related interest and penalties on corporate income tax was $4,872 million. This was $321 million, or 7 per cent higher than budget.

Other taxes:
($4,323 million, or 15 per cent of the total revenue)

- Other taxes actuals were lower by $105 million, or 2 per cent from budget.
- Tobacco tax revenue was $873 million, $33 million lower than budget; Insurance tax revenue was $606 million, $30 million lower than budget; fuel tax revenue was $1,394 million, $20 million lower than budget and carbon levy revenue was $1,324 million, $32 million lower than budget.
- The decrease in other taxes revenue was slightly offset by Cannabis tax revenue of $30 million being $4 million higher than budget and tourism levy revenue of $90 million being $5 million higher than budget.

Transfers from Government of Canada:
($1,639 million, or 6 per cent of the total revenue)

- Transfers from Government of Canada were lower by $23 million or 1 per cent from budget.

Investment income:
($2,014 million, or 7 per cent of the total revenue.)

- Investment income was $579 million or 22 per cent lower from budget.

Net income from government business enterprises:
($2,433 million, or 9 per cent of the total revenue)

- Net income from government business enterprises was $64 million or 3 per cent lower than budget.

Premiums, fees and licences:
($172 million, or 1 per cent of the total revenue)

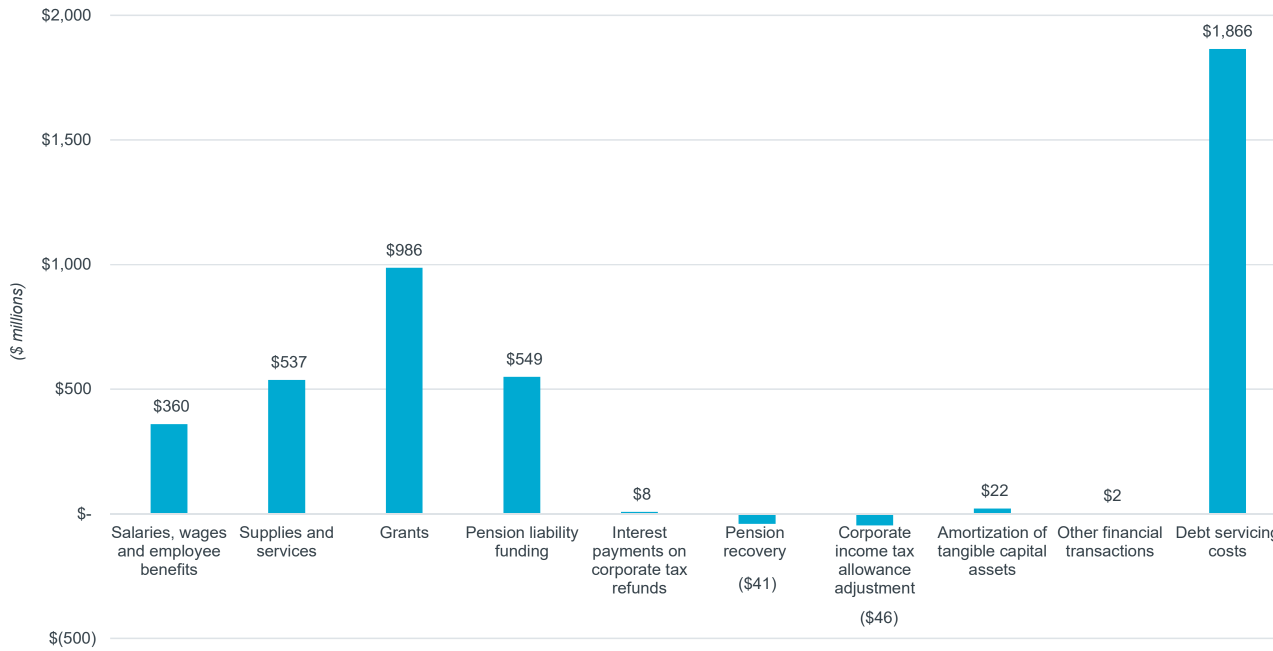
- Premiums, fees and licences was $6 million or 3 per cent lower from budget.

Other revenue:
($504 million, or 2 per cent of the total revenue)

- Other revenue was $74 million or 17 per cent higher than budget.

Expenses - Directly Incurred Detailed by Object (unaudited)

The following information presents expenses of the Ministry that were directly incurred by object. The total expense for 2018-19 for Treasury Board and Finance was $4,243 million, an increase of $1,288 million from previous year 2017-18 and $192 million higher than the budget.



Salaries, wages and employee benefits:
($360 million, or 8 per cent of the total expenses)

- Salaries, wages and employee benefits were $14 million, or 4 per cent higher than budget. This was predominantly due to an increase in AIMCo's salaries compared to budget.

Supplies and services:
($537 million, or 13 per cent of the total expenses)

- Supplies and services were $86 million, or 19 per cent higher than budget largely due to the increase in expenses related to market access campaign of $29 million and AIMCo incurring higher external third party investment fees.

Grants:
($986 million, or 23 per cent of the total expenses)

- Grants were $18 million, or 2 per cent lower than budget mainly due to $13 million lower than budget utilization of the Scientific Research and Experimental Developmental Tax Credit and $2 million lower than budget utilization of climate leadership plan consumer rebates.

Pension liability funding:
($549 million, or 13 per cent of the total expenses)

- Pension liability funding actuals were in line with the original budget as the rate of retirement from pension plan members and mortality rates remained same throughout the year.

Interest payments on corporate tax refunds:
($8 million, or less than 1 per cent of the total expenses)

- Interest payments on corporate tax refunds were $9 million, or 53 per cent lower than budget due to less refund interest on corporate income taxes than what was anticipated.

Pension recovery:
(($41 million), or (1) per cent of the total expenses)

- Pension recovery was $108 million, or 73 per cent lower than budgeted.

Corporate income tax allowance adjustment:
(($46 million), or (1) per cent of the total expenses)

- Corporate income tax allowance adjustment was a recovery of $46 million instead of a provision of $15 million on budget due to analysis and back testing of previous estimates resulting in a downward adjustment to the allowance for doubtful accounts.

Amortization of tangible capital assets:
($22 million, or 1 per cent of the total expenses)

- Amortization expenses were in line with the budget.

Other financial transactions:
($2 million, or less than 1 per cent of the total expenses)

- Other financial transactions expenses include interest & bank charges and these expenses were slightly higher than budgeted.

Debt servicing costs:
($1,866 million, or 44 per cent of the total expenses)

- Debt servicing costs were $71 million, or 4 per cent higher than the budget. This is due to timing of borrowing based on cash flow requirements and increased cost of borrowing.

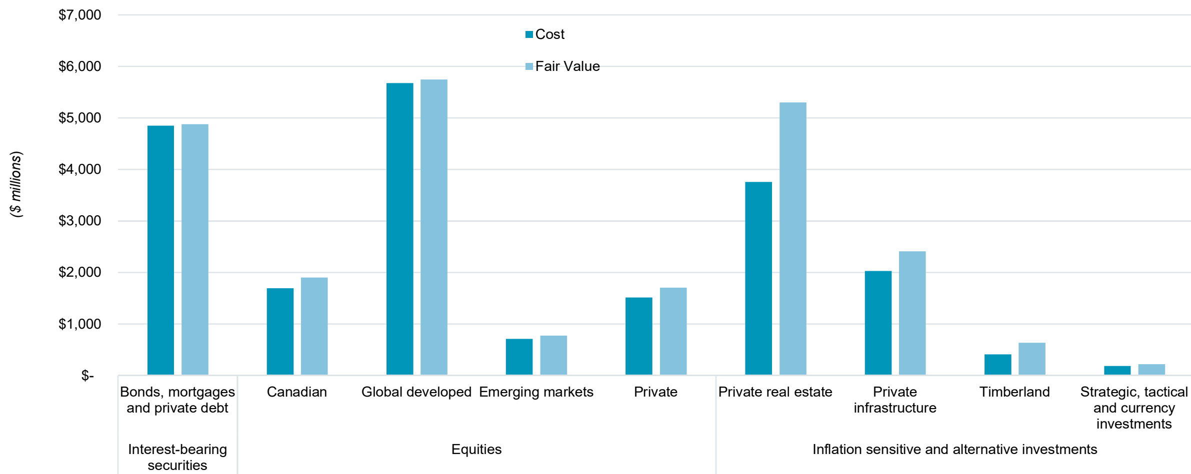
Supplemental Financial Information

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

Portfolio Investments (unaudited)
Comparison of Cost to Fair Value
Year ended March 31, 2019

($ millions)

The total portfolio investment for 2018-19 was $20,835 million at cost and $23,564 million at fair value.

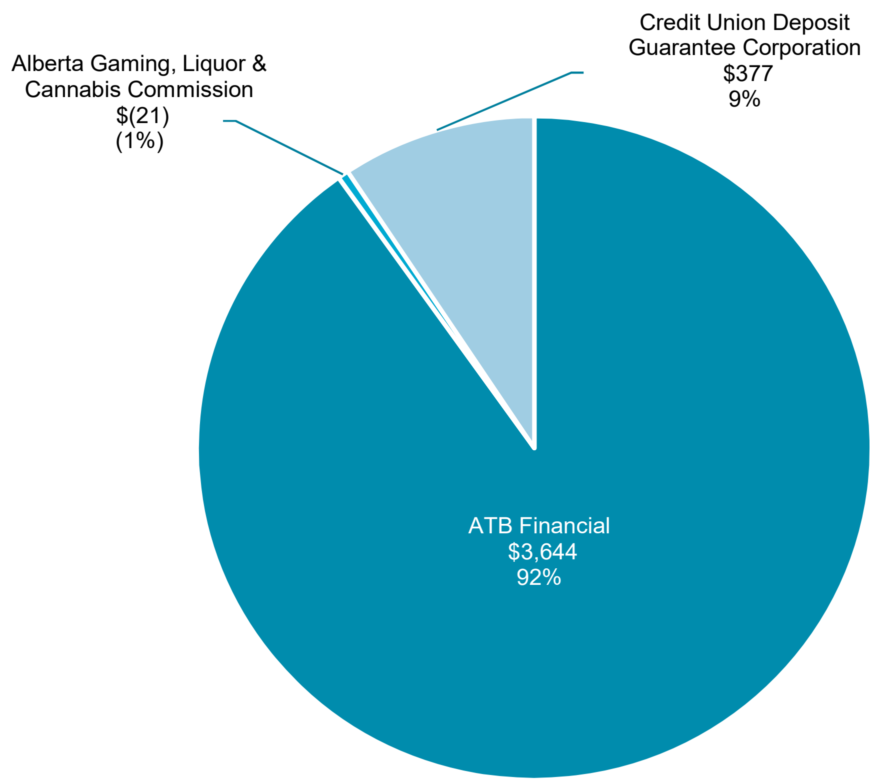


- Mainly comprised of assets designated in legislation for a specific purpose, such as stewardship of savings, cancer prevention, medical research, science and engineering research, and post secondary scholarships.

Equity in Government Business Enterprises (unaudited)
Year ended March 31, 2019

($ millions)

The total equity in government business enterprises at the end of the year 2018-19 was $4,000 million.

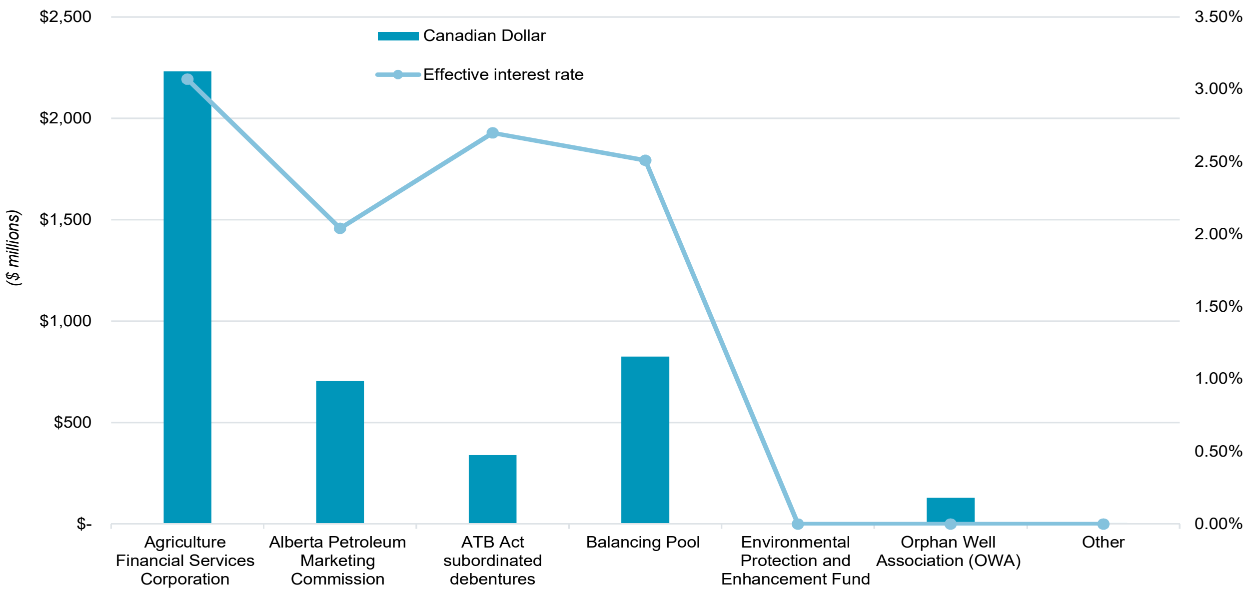


- Alberta Gaming, Liquor and Cannabis Commission, ATB Financial and Credit Union Deposit Guarantee Corporation are government business enterprises and are consolidated on a modified equity basis.

Loans and Advances (unaudited)
Year ended March 31, 2019

($ millions)

Loans and Advances for Ministry of Treasury Board and Finance are $4,234 million (2018: $3,905 million).

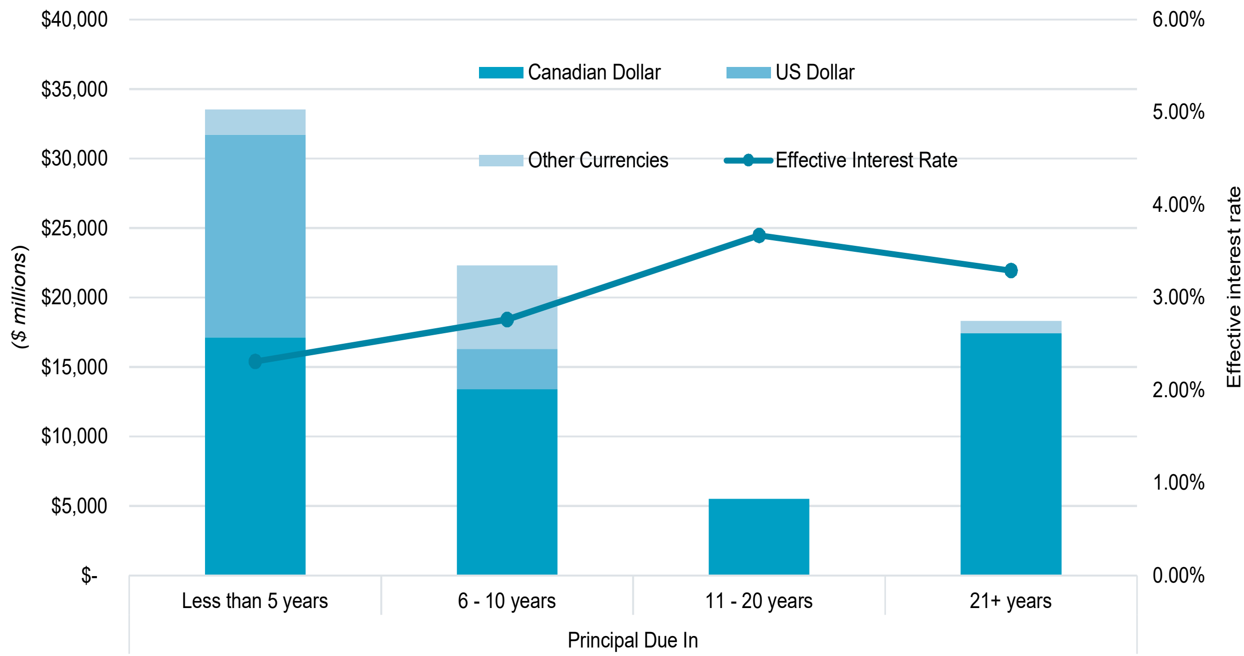


- The effective rate includes the effect of interest rate and currency rate swaps, if any.
- In December 2017, the Department entered into an agreement with Alberta Oil and Gas Orphan Abandonment and Reclamation Association (also known as the Orphan Well Association or OWA). The agreement is for a series of interest free loan advances from the Department to OWA under the authority of Section 76.2 of the *Oil and Gas Conservation Act*. A discount of $15 million for the present value of foregone interest will be amortized to revenue in subsequent periods over the remaining life of the loan.

Debt (unaudited)
Year ended March 31, 2019

($ millions)

Total Debt in CAD at Face Value is $79,316 million.

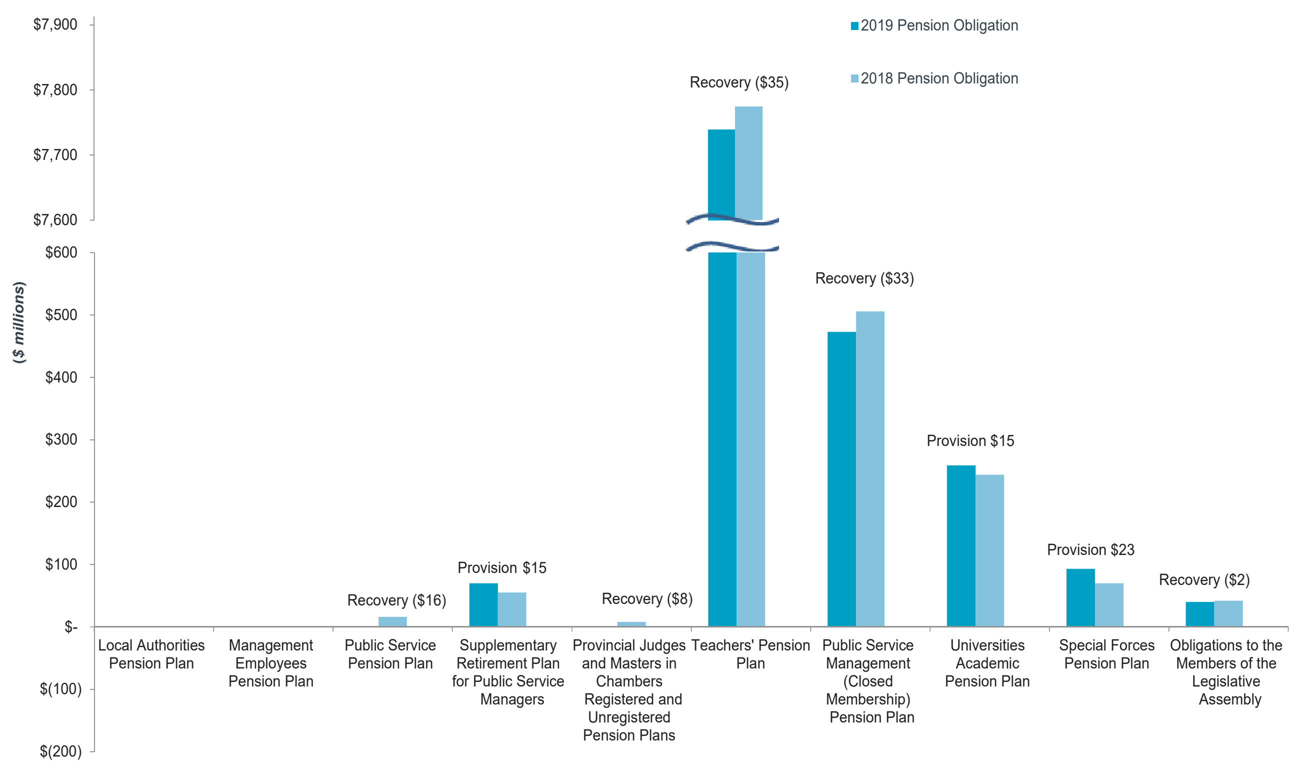


- Other currencies include the Euro, British pound sterling, Australian dollar, Swiss francs, Swedish kronor and South African rand.
- Fully hedged foreign currency debt is translated into Canadian dollars at the rate of exchange established by hedging agreements, including interest rate and foreign currency derivatives.
- Interest rate derivatives allow the Ministry to exchange interest rate cash flows (fixed, 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.
- Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Pension Liability (unaudited)
Year ended March 31, 2019

($ millions)

The total liability for pension obligations for 2018-19 was $8,674 million, resulting in a recovery of $41 million, representing the change from the pension liability of $8,715 million reported in 2017-18.



- Local Authorities Pension Plan, Management Employees Pension Plan, Public Service Pension Plan and the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans are in surplus for 2018-19 fiscal year and therefore do not contribute to the pension liability for 2018-19.

Financial Statements of Other Reporting Entities

Table of Contents

Regulated Funds

Table of Contents

ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Cancer Prevention Legacy Fund (the Fund), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

June 05, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands) 2019	2018
Net financial assets		
Investments (Note 3)	$ 429,087	$ 433,721
Net financial assets (Note 5)		
Accumulated operating surplus	$ 451,482	$ 465,559
Accumulated remeasurement losses	(22,395)	(31,838)
	$ 429,087	$ 433,721

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

	($ thousands) 2019 Budget	2019 Actual	2018 Actual
Net operating deficiency	$ (17,440)	$ (14,077)	$ (4,933)
Net remeasurement gains (losses)		9,443	(8,408)
Decrease in net financial assets		**(4,634)**	**(13,341)**
Net financial assets, beginning of year		433,721	447,062
Net financial assets, end of year		$ 429,087	$ 433,721

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2019

	2019 Budget	2019 Actual	2018 Actual
	($ thousands)		
Investment income (Note 6)	$ 7,560	$ 5,641	$ 7,515
Investment expenses (Note 7)	-	(339)	(321)
Net income from operations	7,560	5,302	7,194
Transfers on behalf of the Ministry of Health (Note 5b)	(25,000)	(19,379)	(12,127)
Net operating deficiency	**(17,440)**	**(14,077)**	**(4,933)**
Accumulated operating surplus at beginning of year		465,559	470,492
Accumulated operating surplus at end of year		$ 451,482	$ 465,559

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2019

	2019	2018
	($ thousands)	
Unrealized gains (losses) on investments	$ 8,060	$ (9,259)
Less: Amounts reclassified to the Statement of Operations - realized losses on investments	1,383	851
Net remeasurement gains (losses)	**9,443**	**(8,408)**
Accumulated remeasurement losses, beginning of year	(31,838)	(23,430)
Accumulated remeasurement losses, end of year	$ (22,395)	$ (31,838)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2019

	($ thousands)	
	2019	2018
Operating transactions		
Net income from operations	$ 5,302	$ 7,194
Non-cash items included in net income	1,383	851
	6,685	8,045
Decrease in accounts receivable	-	6,028
Cash provided by operating transactions	6,685	14,073
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	20,558	12,457
Purchase of investments	(7,863)	(8,075)
Cash provided by investing transactions	12,695	4,382
Transfers		
Transfers on behalf of the Ministry of Health	(19,379)	(12,127)
Decrease in transfer payable	-	(6,328)
Cash applied to transfers	(19,379)	(18,455)
Increase in cash	1	-
Cash at beginning of year	-	-
Cash at end of year	$ 1	$ -

* 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, 2019

(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.

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 2	Level 3	**2019**	**2018**
Interest-bearing securities				
Deposits in CCITF	$ 1	$ -	$ 1	$ -
Bonds and mortgages	429,086	-	429,086	433,721
Total Fair Value of Investments	$ 429,087	$ -	$ 429,087	$ 433,721

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 pool units that hold public equities, debt securities and derivative contracts totaling $429,087 (2018: $433,721).
- ***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.

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. 100% (2018: 100%) of the investments in debt securities have credit ratings considered to be investment grade.

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, 2019, the Fund's share of securities loaned under this program is $46,385 (2018: $151,504) and collateral held totals $49,434 (2018: $163,823). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

b) 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 2.8% of total investments (2018: 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	
	2019	**2018**
Accumulated net income from operations	$ 223,024	$ 217,722
Transfers from the General Revenue Fund [a]	500,000	500,000
Accumulated transfers to Ministry [b]	(271,542)	(252,163)
Accumulated surplus from operations	451,482	465,559
Accumulated net remeasurement losses	(22,395)	(31,838)
Carrying value of net financial assets	$ 429,087	$ 433,721

(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:

	2019	2018
Interest-bearing securities	$ 5,641	$ 7,515

The investment income includes realized losses from disposal of pool units totaling $(1,383) (2018: $(851)) and income distributions from the pools total $7,024 (2018: $8,366).

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)

	2019	2018
Amounts charged by:		
AIMCo [(a)]	$ 309	$ 291
Alberta Treasury Board and Finance [(b)]	30	30
Total investment expenses	$ 339	$ 321
Increase in expenses	5.6%	52.9%
Decrease in average investments under management	(2.1%)	(3.2%)
Increase in value of investments attributed to AIMCo	0.2%	0.3%
Investment expenses as a percent of 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)]	2019	2018	5 years	10 years
Net return on investments [(b)]	3.5%	-0.3%	2.0%	2.7%
Policy benchmark return [(b)]	3.3%	-0.6%	1.6%	2.0%
Value added by AIMCo	0.2%	0.3%	0.4%	0.7%

(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.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Heritage Foundation for Medical Research Endowment Fund (the Fund), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Auditor General

June 05, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands) 2019	2018
Financial assets		
Investments (Note 3)	$ 1,991,746	$ 1,917,349
Receivable from sale of investments	1,862	845
	1,993,608	1,918,194
Liabilities		
Accounts payable	1,799	845
Net financial assets	$ 1,991,809	$ 1,917,349
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,777,796	$ 1,760,083
Accumulated remeasurement gains	214,013	157,266
	$ 1,991,809	$ 1,917,349

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

	($ thousands) 2019 Budget	2019 Actual	2018 Actual
Net operating surplus	$ 68,348	$ 17,713	$ 107,124
Net remeasurement gains (losses)		56,747	(25,420)
Increase in net financial assets		**74,460**	**81,704**
Net financial assets, beginning of year		1,917,349	1,835,645
Net financial assets, end of year		$ 1,991,809	$ 1,917,349

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2019

	2019 Budget	2019 Actual	2018 Actual
	($ thousands)		
Investment income (Note 6)	$ 152,000	$ 102,527	$ 191,623
Investment expenses (Note 7)	(12,372)	(13,534)	(13,219)
Net income from operations	139,628	88,993	178,404
Transfers for health research and innovation (Note 5b)	(71,280)	(71,280)	(71,280)
Net operating surplus	**$ 68,348**	**17,713**	**107,124**
Accumulated operating surplus, beginning of year		1,760,083	1,652,959
Accumulated operating surplus, end of year		$ 1,777,796	$ 1,760,083

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2019

	2019	2018
	($ thousands)	
Unrealized gains on investments	$ 62,669	$ 220
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(5,922)	(25,640)
Net remeasurement gains (losses)	**56,747**	**(25,420)**
Accumulated remeasurement gains, beginning of year	157,266	182,686
Accumulated remeasurement gains, end of year	$ 214,013	$ 157,266

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2019

	($ thousands) 2019	2018
Operating transactions		
Net income from operations	$ 88,993	$ 178,404
Non-cash items included in net income	(5,922)	(25,640)
	83,071	152,764
Increase in accounts receivable	(1,017)	(845)
Increase in accounts payable	954	845
Cash provided by operating transactions	83,008	152,764
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	223,343	301,865
Purchase of investments	(233,503)	(389,835)
Cash applied to investing transactions	(10,160)	(87,970)
Transfers		
Transfers for health research and innovation	(71,280)	(71,280)
Cash applied to transfers	(71,280)	(71,280)
Increase (decrease) in cash	1,568	(6,486)
Cash at beginning of year	9,641	16,127
Cash at end of year	$ 11,209	$ 9,641
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 11,209	$ 9,641

* 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, 2019

(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.

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 2	Level 3	**2019**	**2018**
Interest-bearing securities				
Deposits in CCITF	$ 11,209	$ -	$ 11,209	$ 9,641
Bonds, mortgages and private debt	233,725	121,314	355,039	359,629
	244,934	121,314	366,248	369,270
Equities				
Canadian	161,208	-	161,208	156,568
Global developed	547,147	32,438	579,585	589,619
Emerging markets	79,353	-	79,353	84,185
Private	6	149,377	149,383	129,893
	787,714	181,815	969,529	960,265
Inflation sensitive				
Real estate	-	397,549	397,549	366,923
Infrastructure	-	197,175	197,175	162,937
Timberland	-	45,433	45,433	41,610
	-	640,157	640,157	571,470
Strategic, tactical and currency investments *	1,068	14,744	15,812	16,344
Total Fair Value of Investments	$ 1,033,716	$ 958,030	$ 1,991,746	$ 1,917,349

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

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

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

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $1,033,716 (2018: $1,054,781).

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $958,030 (2018: $862,568).

Reconciliation of Level 3 Investments

	2019	2018
Balance, beginning of year	$ 862,568	$ 797,992
Unrealized gains	62,934	8,169
Purchases of Level 3 pooled fund units	123,595	179,047
Sale of Level 3 pooled fund units	(91,067)	(122,635)
Level 3 transfers out	-	(5)
Balance, end of year	$ 958,030	$ 862,568

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.

NOTE 3 INVESTMENTS (in thousands) CONTINUED

- ***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**	**2019**		**2018**	
Interest-bearing securities	15 - 45%	$ 366,248	18.4%	$ 369,270	19.3%
Equities	35 - 70%	969,529	48.7%	960,265	50.1%
Inflation sensitive	15 - 40%	640,157	32.1%	571,470	29.8%
Strategic, tactical and currency investments	(a)	15,812	0.8%	16,344	0.8%
		$ 1,991,746	100.0%	$ 1,917,349	100.0%

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

a) Credit risk

i) Debt securities

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

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, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	69.1%	71.3%
Speculative Grade (BB+ or lower)	0.4%	0.5%
Unrated	30.5%	28.2%
	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, 2019, the Fund's share of securities loaned under this program is $67,624 (2018: $76,408) and collateral held totals $71,630 (2018: $81,607). 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 40% (2018: 42%) of the Fund's investments, or $801,579 (2018: $803,076), are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2018: 21%) and the Euro, 5% (2018: 6%).

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 4.0% of total investments (2018: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2019:

	($ thousands)			
	2019		2018	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 404,653	$ (40,465)	$ 393,463	$ (39,347)
Euro	105,618	(10,562)	117,820	(11,782)
British pound sterling	84,167	(8,417)	86,813	(8,681)
Japanese yen	49,017	(4,902)	50,370	(5,037)
Hong Kong dollar	28,078	(2,808)	23,119	(2,312)
Other foreign currency	130,046	(13,004)	131,491	(13,149)
Total foreign currency investments	$ 801,579	$ (80,158)	$ 803,076	$ (80,308)

(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 (2018: 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 (2018: 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 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.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

f) Use of derivative financial instruments in pooled investment funds

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

By counterparty	Number of counterparties	Fund's Indirect Share 2019	Fund's Indirect Share 2018
Contracts in favourable position (current credit exposure)	67	$ 72,811	$ 14,758
Contracts in unfavourable position	14	(69,501)	(27,636)
Net fair value of derivative contracts	81	$ 3,310	$ (12,878)

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 $72,811 (2018: $14,758) 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 2019	Fund's Indirect Share 2018
Structured equity replication derivatives	$ 6,663	$ (6,575)
Foreign currency derivatives	(3,753)	(8,825)
Interest rate derivatives	96	2,153
Credit risk derivatives	304	369
Net fair value of derivative contracts	$ 3,310	$ (12,878)

i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

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

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

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

v) At March 31, 2019, deposits in futures contracts margin accounts totaled $3,371 (2018: $3,409). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $6,305 (2018: $6,928 and $28 (2018: $nil).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

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

	Cumulative since 1980	
	2019	2018
Accumulated net income from operations	$ 2,848,263	$ 2,759,270
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]	(1,870,467)	(1,799,187)
Accumulated surplus from operations	1,777,796	1,760,083
Accumulated remeasurement gains	214,013	157,266
Carrying value of net financial assets	$ 1,991,809	$ 1,917,349

(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.

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2019	2018
Interest-bearing securities	$ 11,289	$ 13,440
Equities		
Canadian	8,771	9,160
Global	36,152	95,774
Private	17,053	11,033
	61,976	115,967
Inflation sensitive		
Real estate	21,191	29,738
Infrastructure	3,300	21,861
Timberland	4,386	5,171
	28,877	56,770
Strategic, tactical and currency investments	385	5,446
	$ 102,527	$ 191,623

The investment income includes realized gains and losses from disposal of pool units totaling $6,460 (2018: $25,005) and from directly held foreign exchange contracts totaling $(539) (2018: $635). Income distributions from the pools total $96,606 (2018: $165,983).

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)

	2019	2018
Amount charged by AIMCo for:		
Investment costs [a]	$ 10,960	$ 10,991
Performance based fees [a]	2,525	2,179
	13,485	13,170
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 13,534	$ 13,219
Increase in expenses	2.4%	4.9%
Increase in average investments under management	4.2%	5.9%
Increase in value of investments attributed to AIMCo	1.3%	1.2%
Investment expenses as a percent of 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]	2019	2018	5 years	10 years
Net return on investments [b]	7.8%	8.4%	9.2%	11.0%
Policy benchmark return [b]	6.5%	7.2%	7.7%	9.8%
Value added by AIMCo [c]	1.3%	1.2%	1.5%	1.2%

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

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

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

NOTE 10 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, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Heritage Savings Trust Fund (the Fund), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Auditor General

June 05, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

(in millions)

		2019		2018
Financial assets				
Investments (Note 3)	$	18,183	$	17,633
Receivable from sale of investments		10		10
Due from the General Revenue Fund		67		-
		18,260		17,643
Liabilities				
Due to the General Revenue Fund		-		207
Payable from purchase of investments		14		10
		14		217
Net financial assets	$	18,246	$	17,426
Net financial assets (Note 5)				
Accumulated operating surplus	$	15,956	$	15,582
Accumulated remeasurement gains		2,290		1,844
	$	18,246	$	17,426

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

(in millions)

	2019				2018	
	Budget		Actual		Actual	
Net surplus retained in the Fund	$	328	$	374	$	230
Net remeasurement gains (losses)				446		(287)
Increase in net financial assets				**820**		**(57)**
Net financial assets, beginning of year				17,426		17,483
Net financial assets, end of year			$	18,246	$	17,426

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2019
(in millions)

	2019 Budget	2019 Actual	2018 Actual
Investment income (Note 7)	$ 1,653	$ 1,071	$ 1,926
Investment expenses (Note 8)	(123)	(134)	(139)
Net income from operations	1,530	937	1,787
Transfers from (to) the General Revenue Fund (Note 5b)	(1,202)	(563)	(1,557)
Net surplus retained in the Fund (Note 5b)	**$ 328**	**374**	**230**
Accumulated operating surplus, beginning of year		15,582	15,352
Accumulated operating surplus, end of year		$ 15,956	$ 15,582

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2019
(in millions)

	2019	2018
Unrealized gains on investments	$ 642	$ 25
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(196)	(312)
Net remeasurement gains (losses)	**446**	**(287)**
Accumulated remeasurement gains, beginning of year	1,844	2,131
Accumulated remeasurement gains, end of year	$ 2,290	$ 1,844

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2019

(in millions)

	2019	2018
Operating transactions		
Net income from operations	$ 937	$ 1,787
Non-cash items included in net income	(196)	(312)
	741	1,475
Increase in accounts receivable	-	(10)
Increase in accounts payable	4	10
Cash provided by operating transactions	745	1,475
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	2,553	4,113
Purchase of investments	(2,442)	(3,403)
Cash provided by investing transactions	111	710
Transfers		
Transfers to the General Revenue Fund	(563)	(1,557)
Decrease in amounts due to the General Revenue Fund	(274)	(644)
Cash applied to transfers	(837)	(2,201)
Increase (decrease) in cash	19	(16)
Cash at beginning of year	87	103
Cash at end of year	$ 106	$ 87
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 106	$ 87

* 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, 2019

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING... CONTINUED

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.

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)).

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 2	Level 3	**2019**	**2018**
Interest-bearing securities				
Deposits in CCITF	$ 106	$ -	$ 106	$ 87
Bonds, mortgages and private debt	2,253	1,121	3,374	3,181
	2,359	1,121	3,480	3,268
Equities				
Canadian	1,473	-	1,473	1,440
Global developed	3,912	352	4,264	4,254
Emerging markets	588	-	588	643
Private	-	1,359	1,359	1,218
	5,973	1,711	7,684	7,555
Inflation sensitive				
Real estate	-	4,367	4,367	4,438
Infrastructure	-	1,929	1,929	1,667
Timberland	-	543	543	513
	-	6,839	6,839	6,618
Strategic, tactical and currency investments *	12	168	180	192
Total Fair Value of Investments	$ 8,344	$ 9,839	$ 18,183	$ 17,633

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $8,344 (2018: $8,086).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $9,839 (2018: $9,547).

NOTE 3 INVESTMENTS (in millions) CONTINUED

Reconciliation of Level 3 Investments

	2019	2018
Balance, beginning of year	$ 9,547	$ 9,198
Unrealized gains	590	79
Purchases of Level 3 pooled fund units	1,101	1,690
Sale of Level 3 pooled fund units	(1,399)	(1,420)
Balance, end of year	$ 9,839	$ 9,547

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

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

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

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

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of 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 Policy Asset Mix	Actual Asset Mix 2019		Actual Asset Mix 2018	
Interest-bearing securities	15 - 45%	$ 3,480	19.1%	$ 3,268	18.5%
Equities	35 - 70%	7,684	42.3%	7,555	42.8%
Inflation sensitive	15 - 40%	6,839	37.6%	6,618	37.6%
Strategic, tactical and currency investments	(a)	180	1.0%	192	1.1%
		$ 18,183	100.0%	$ 17,633	100.0%

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

a) Credit Risk

i) Debt securities

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

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	69.7%	66.9%
Speculative Grade (BB+ or lower)	0.4%	0.5%
Unrated	29.9%	32.6%
	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, 2019, the Fund's share of securities loaned under this program is $550 (2018: $592) and collateral held totals $582 (2018: $632). 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 35% (2018: 37%) of the Fund's investments, or $6,365 (2018: $6,552), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 17% (2018: 18%) and the Euro, 5% (2018: 6%).

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 3.5% of total investments (2018: 3.7%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2019:

	2019		2018	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,105	$ (311)	$ 3,089	$ (309)
Euro	913	(91)	1,043	(104)
British pound sterling	756	(76)	834	(83)
Japanese yen	365	(37)	366	(37)
Hong Kong dollar	208	(21)	174	(17)
Other foreign currency	1,018	(102)	1,046	(105)
Total foreign currency investments	$ 6,365	$ (638)	$ 6,552	$ (655)

[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 (2018: 1.1%).

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.6% of total investments (2018: 5.6%). 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 main liabilities include transfers payable to the General Revenue Fund and payables related to purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Fund's Indirect Share	
By counterparty	Number of counterparties	2019	2018
Contracts in net favourable position (current credit exposure)	65	$ 552	$ 111
Contracts in net unfavourable position	16	(531)	(239)
Net fair value of derivative contracts	81	$ 21	$ (128)

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 $552 (2018: $111) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share	
Types of derivatives used in pools	2019	2018
Structured equity replication derivatives	$ 57	$ (50)
Foreign currency derivatives	(39)	(98)
Interest rate derivatives	1	17
Credit risk derivatives	2	3
Net fair value of derivative contracts	$ 21	$ (128)

i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity derivative. Rights, warrants, futures and options are also included as structured equity replication derivatives.

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

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

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

v) At March 31, 2019, deposits in futures contracts margin accounts totaled $29 (2018: $30). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $51 (2018: $52) and $1 (2018: $nil).

NOTE 5 NET FINANCIAL ASSETS (in millions)

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

	Cumulative since 1976	
	2019	2018
Accumulated net income	$ 43,502	$ 42,565
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	(43,707)	(42,770)
Amount Retained in the Fund	3,935	3,561
	(39,772)	(39,209)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Other Statutory Transfers [(d)]	(255)	(255)
	(43,513)	(42,950)
Accumulated surplus from operations	15,956	15,582
Accumulated remeasurement gains	2,290	1,844
Carrying value of net financial assets	$ 18,246	$ 17,426

(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 $937, of which $374 was retained in the Fund and $563 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 in 2015. 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:

	2019	2018
Balance, beginning of year	$ 1,584	$ 1,460
Rate of return adjustment	126	124
Balance, end of year	$ 1,710	$ 1,584

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 by asset class:

	2019	2018
Interest-bearing securities	$ 101	$ 127
Equities		
Canadian	85	101
Global	289	826
Private	121	140
	495	1,067
Inflation sensitive		
Real estate	343	357
Infrastructure	57	250
Timberland	61	71
	461	678
Strategic, tactical and currency investments	14	54
	$ 1,071	$ 1,926

The investment income includes realized gains and losses from disposal of pool units totalling $194 (2018: $313) and from directly held foreign exchange contracts totalling $2 (2018: ($1)). Income distributions from the pools total $875 (2018: $1,614).

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)

	2019	2018
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 104	$ 109
Performance based fees [(a)]	30	30
Total investment expenses	$ 134	$ 139
(Decrease) increase in expenses	(3.6%)	3.7%
Decrease in average investments under management	(0.4%)	(0.9%)
Increase in value of investments attributed to AIMCo	1.5%	1.4%
Investment expense as a percent of dollar invested	0.7%	0.8%

(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 (2018: $115 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services.

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)]	**2019**	**2018**	**5 years** [(d)]	**10 years**
Net return on investments [(b)]	8.0%	8.5%	8.8%	10.8%
Policy benchmark return [(b)]	6.5%	7.1%	7.7%	9.6%
Value added by AIMCo [(c)]	1.5%	1.4%	1.1%	1.2%

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

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

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) CONTINUED

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

(d) In accordance with the SIP&G, over a five-year period, it is expected that the policy portfolio will earn an average return of 4.5%, adjusted for inflation and value added by investment manager of 1.0%. The annualized five-year rolling average CPI (plus 4.5%) is 6.0%, bringing the five-year annualized Portfolio Return Expectation to 7.0%.

NOTE 10 COMPARATIVE FIGURES

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool units. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

NOTE 11 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, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Heritage Scholarship Fund (the Fund), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

June 05, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	2019 ($ thousands)	2018 ($ thousands)
Financial assets		
Investments (Note 3)	$ 1,405,406	$ 1,351,077
Receivable from sale of investments	2,051	909
	1,407,457	1,351,986
Liabilities		
Accounts payable	2,428	1,331
Net Financial Assets	$ 1,405,029	$ 1,350,655
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,281,121	$ 1,269,328
Accumulated remeasurement gains	123,908	81,327
	$ 1,405,029	$ 1,350,655

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

	2019 Budget ($ thousands)	2019 Actual ($ thousands)	2018 Actual ($ thousands)
Net operating surplus	$ 39,373	$ 11,793	$ 64,046
Net remeasurement gains (losses)		42,581	(14,507)
Increase in net financial assets		**54,374**	**49,539**
Net financial assets, beginning of year		1,350,655	1,301,116
Net financial assets, end of year		$ 1,405,029	$ 1,350,655

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2019

	($ thousands)		
	2019		2018
	Budget	Actual	Actual
Investment income (Note 6)	$ 102,000	$ 69,811	$ 123,340
Investment expenses (Note 7)	(8,437)	(9,017)	(9,036)
Net income from operations	93,563	60,794	114,304
Transfers from Alberta Government departments	800	-	-
Other contributions	90	6	14
Transfers for Scholarships to the Ministries of:			
Advanced Education	(55,000)	(48,959)	(50,220)
Culture and Tourism	(80)	(48)	(52)
	(55,080)	(49,007)	(50,272)
Net operating surplus	**$ 39,373**	**11,793**	**64,046**
Accumulated operating surplus, beginning of year		1,269,328	1,205,282
Accumulated operating surplus, end of year		$ 1,281,121	$ 1,269,328

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2019

	($ thousands)	
	2019	2018
Unrealized gains (losses) on investments	$ 47,448	$ (2,142)
Less: Amounts reclassified to the Statement of Operations		
- realized gains on investments	(4,867)	(12,365)
Net remeasurement gains (losses)	**42,581**	**(14,507)**
Accumulated remeasurement gains, beginning of year	81,327	95,834
Accumulated remeasurement gains, end of year	$ 123,908	$ 81,327

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2019

	($ thousands) 2019	2018
Operating transactions		
Net income from operations	$ 60,794	$ 114,304
Non-cash items included in net income	(4,867)	(12,365)
	55,927	101,939
Increase in accounts receivable	(1,142)	(909)
Increase in accounts payable	1,097	1,111
Cash provided by operating transactions	55,882	102,141
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	174,598	195,681
Purchase of investments	(179,985)	(251,911)
Cash applied to investing transactions	(5,387)	(56,230)
Transfers		
Other contributions	6	14
Transfers for Scholarships	(49,007)	(50,272)
Cash applied to transfers	(49,001)	(50,258)
Increase (decrease) in cash	1,494	(4,347)
Cash at beginning of year	9,372	13,719
Cash at end of year	$ 10,866	$ 9,372
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 10,866	$ 9,372

* 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, 2019

(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.

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 2	Level 3	**2019**	**2018**
Interest-bearing securities				
Deposits in CCITF	$ 10,866	$ -	$ 10,866	$ 9,372
Bonds, mortgages and private debt	175,579	89,619	265,198	271,561
	186,445	89,619	276,064	280,933
Equities				
Canadian	113,651	-	113,651	110,358
Global developed	404,463	22,783	427,246	433,015
Emerging markets	59,440	-	59,440	62,646
Private	3	101,062	101,065	88,020
	577,557	123,845	701,402	694,039
Inflation sensitive				
Real estate	-	259,060	259,060	238,542
Infrastructure	-	146,374	146,374	117,199
Timberland	-	12,587	12,587	10,160
	-	418,021	418,021	365,901
Strategic, tactical and currency investments*	757	9,162	9,919	10,204
Total Fair Value of Investments	$ 764,759	$ 640,647	$ 1,405,406	$ 1,351,077

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $764,759 (2018: $797,079).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $640,647 (2018: $553,998).

Reconciliation of Level 3 Fair Value Measurements

	2019	2018
Balance, beginning of year	$ 553,998	$ 498,807
Unrealized gains	45,380	4,807
Purchases of Level 3 pooled fund units	99,332	120,159
Sale of Level 3 pooled fund units	(58,063)	(69,772)
Level 3 transfers out	-	(3)
Balance, end of year	$ 640,647	$ 553,998

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.

NOTE 3 INVESTMENTS (in thousands) CONTINUED

- ***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 2019		2018	
Interest-bearing securities	15 - 45%	$ 276,064	19.7%	$ 280,933	20.8%
Equities	35 - 70%	701,402	49.9%	694,039	51.4%
Inflation sensitive	15 - 40%	418,021	29.7%	365,901	27.1%
Strategic, tactical and currency investments	(a)	9,919	0.7%	10,204	0.7%
		$ 1,405,406	100.0%	$ 1,351,077	100.0%

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

a) Credit Risk

i) Debt securities

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

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, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	69.5%	76.6%
Speculative Grade (BB+ or lower)	0.4%	0.5%
Unrated	30.1%	22.9%
	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, 2019, the Fund's share of securities loaned under this program is $49,918 (2018: $58,815) and collateral held totals $52,876 (2018: $62,832). 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 40% (2018: 42%) of the Fund's investments, or $557,035 (2018: $560,269), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2018: 21%) and the Euro, 5% (2018: 6%).

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 4.0% of total investments (2018: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2019:

	($ thousands)			
	2019		2018	
Currency [a]	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	$ 284,388	$ (28,439)	$ 279,920	$ (27,992)
Euro	68,317	(6,832)	77,394	(7,739)
British pound sterling	52,727	(5,273)	53,893	(5,389)
Japanese yen	36,024	(3,602)	36,872	(3,687)
Hong Kong dollar	20,901	(2,090)	17,155	(1,716)
Other foreign currency	94,678	(9,468)	95,035	(9,504)
Total foreign currency investments	$ 557,035	$ (55,704)	$ 560,269	$ (56,027)

(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 (2018: 1.4%).

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 (2018: 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 main liabilities include annual scholarships and payables related to purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

By counterparty	Number of counterparties	Fund's Indirect Share 2019	Fund's Indirect Share 2018
Contracts in favourable position (current credit exposure)	67	$ 53,553	$ 10,877
Contracts in unfavourable position	14	(51,041)	(19,474)
Net fair value of derivative contracts	81	$ 2,512	$ (8,597)

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 $53,553 (2018: $10,877) 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 2019	Fund's Indirect Share 2018
Structured equity replication derivatives	$ 4,776	$ (4,797)
Foreign currency derivatives	(2,561)	(5,852)
Interest rate derivatives	75	1,772
Credit risk derivatives	222	280
Net fair value of derivative contracts	$ 2,512	$ (8,597)

i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

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

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

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

v) At March 31, 2019, deposits in futures contracts margin accounts totaled $2,455 (2018: $2,519). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $4,612 (2018: $5,076 and $21 (2018: $nil).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to (from) the Fund since its inception in 1981:

	Cumulative since 1981	
	2019	2018
Accumulated net income from operations	$ 1,299,319	$ 1,238,525
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	20,999	20,993
Accumulated scholarship payments [a]	(836,197)	(787,190)
Accumulated surplus from operations	1,281,121	1,269,328
Accumulated net remeasurement gains	123,908	81,327
Carrying value of net financial assets	$ 1,405,029	$ 1,350,655

(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.

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2019	2018
Interest-bearing securities	$ 7,781	$ 9,088
Equities		
Canadian	6,464	6,306
Global	28,973	68,665
Private	10,417	8,819
	45,854	83,790
Inflation sensitive		
Real estate	13,404	17,627
Infrastructure	2,129	8,884
Timberland	449	684
	15,982	27,195
Strategic, tactical and currency investments	194	3,267
	$ 69,811	$ 123,340

NOTE 6 INVESTMENT INCOME (in thousands) continued

The investment income includes realized gains and losses from disposal of pool units totalling $5,293 (2018: $12,141) and from directly held foreign exchange contracts totalling $(425) (2018: $224). Income distributions from the pools total $64,943 (2018: $110,975).

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)

	2019	2018
Amount charged by AIMCo for:		
Investment costs [a]	$ 7,362	$ 7,253
Performance based fees [a]	1,606	1,734
	8,968	8,987
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 9,017	$ 9,036
(Decrease) increase in expenses	(0.2%)	9.5%
Increase in average investments under management	3.9%	5.4%
Increase in value of investments attributed to AIMCo	1.4%	0.8%
Investment expenses as a percent of 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]	2019	2018	5 years	10 years
Net return on investments [b]	7.8%	7.9%	9.0%	11.1%
Policy benchmark return [b]	6.4%	7.1%	7.8%	10.0%
Value added by AIMCo[c]	1.4%	0.8%	1.2%	1.1%

(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 COMPARATIVE FIGURES

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

NOTE 10 FINANCIAL STATEMENTS

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

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ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund (the Fund), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

June 05, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

(in thousands)

	2019	2018
Financial assets		
Investments (Note 3)	$ 1,200,841	$ 1,148,122
Receivable from sale of investments	1,133	644
	1,201,974	1,148,766
Liabilities		
Payable from purchase of investments	1,095	644
Net Financial Assets	$ 1,200,879	$ 1,148,122
Net financial assets (Note 5)		
Accumulated surplus from operations	$ 1,076,158	$ 1,057,747
Accumulated remeasurement gains	124,721	90,375
	$ 1,200,879	$ 1,148,122

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

(in thousands)

	2019		2018
	Budget	Actual	Actual
Net operating surplus	$ 39,173	$ 18,411	$ 69,182
Net remeasurement gains (losses)		34,346	(14,611)
Increase in net financial assets		**52,757**	**54,571**
Net financial assets, beginning of year		1,148,122	1,093,551
Net financial assets, end of year		$ 1,200,879	$ 1,148,122

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2019

(in thousands)

	2019 Budget	2019 Actual	2018 Actual
Investment income (Note 6)	$ 82,000	$ 61,946	$ 112,451
Investment expenses (Note 7)	(7,327)	(8,035)	(7,769)
Net income from operations	74,673	53,911	104,682
Transfers for research and innovation (Note 5b)	(35,500)	(35,500)	(35,500)
Net operating surplus	**$ 39,173**	**18,411**	**69,182**
Accumulated operating surplus, beginning of year		1,057,747	988,565
Accumulated operating surplus, end of year		$ 1,076,158	$ 1,057,747

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2019

(in thousands)

	2019	2018
Unrealized gains (losses) on investments	$ 38,504	$ (144)
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(4,158)	(14,467)
Net remeasurement gains (losses)	**34,346**	**(14,611)**
Accumulated remeasurement gains, beginning of year	90,375	104,986
Accumulated remeasurement gains, end of year	$ 124,721	$ 90,375

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2019

(in thousands)

	2019	2018
Operating transactions		
Net income from operations	$ 53,911	$ 104,682
Non-cash items included in net income	(4,158)	(14,467)
	49,753	90,215
Increase in accounts receivable	(489)	(644)
Increase in accounts payable	451	644
Cash provided by operating transactions	49,715	90,215
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	130,926	170,073
Purchase of investments	(144,225)	(228,604)
Cash applied to investing transactions	(13,299)	(58,531)
Transfers		
Transfers for research and innovation	(35,500)	(35,500)
Cash applied to transfers	(35,500)	(35,500)
Increase (decrease) in cash	916	(3,816)
Cash at beginning of year	5,840	9,656
Cash at end of year	$ 6,756	$ 5,840
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 6,756	$ 5,840

* 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, 2019

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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.

NOTE 3 INVESTMENTS (in thousands)

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

Asset class	Fair Value Hierarchy [a] Level 2	Level 3	2019	2018
Interest-bearing securities				
Deposits in CCITF	$ 6,756	$ -	$ 6,756	$ 5,840
Bonds, mortgages and private debt	145,614	72,783	218,397	220,278
	152,370	72,783	225,153	226,118
Equities				
Canadian	97,126	-	97,126	93,809
Global developed	337,741	18,966	356,707	355,879
Emerging markets	47,787	-	47,787	53,160
Private	4	91,466	91,470	78,196
	482,658	110,432	593,090	581,044
Inflation sensitive				
Real estate	-	230,184	230,184	211,194
Infrastructure	-	115,452	115,452	95,037
Timberland	-	27,787	27,787	25,342
	-	373,423	373,423	331,573
Strategic, tactical and currency investments *	606	8,569	9,175	9,387
Total Fair Value of Investments	$ 635,634	$ 565,207	$ 1,200,841	$ 1,148,122

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

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

- ***Level 1*** -fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $635,634 (2018: $643,775).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $565,207 (2018: $504,347).

Reconciliation of Level 3 Investments

	2019	2018
Balance, beginning of year	$ 504,347	$ 463,284
Unrealized gains	37,999	4,715
Purchases of Level 3 pooled fund units	75,769	106,114
Sale of Level 3 pooled fund units	(52,908)	(69,763)
Transfers out of Level 3	-	(3)
Balance, end of year	$ 565,207	$ 504,347

NOTE 3 INVESTMENTS (in thousands) CONTINUED

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of 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 Policy Asset Mix	Actual Asset Mix 2019		Actual Asset Mix 2018	
Interest-bearing securities	15 - 45%	$ 225,153	18.7%	$ 226,118	19.7%
Equities	35 - 70%	593,090	49.4%	581,044	50.6%
Inflation sensitive	15 - 40%	373,423	31.1%	331,573	28.9%
Strategic, tactical and currency investments	(a)	9,175	0.8%	9,387	0.8%
		$1,200,841	100.0%	$1,148,122	100.0%

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

a) Credit Risk

i) Debt securities

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

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	69.8%	72.3%
Speculative Grade (BB+ or lower)	0.4%	0.5%
Unrated	29.8%	27.2%
	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, 2019, the Fund's share of securities loaned under this program is $41,626 (2018: $46,853) and collateral held totals $44,093 (2018: $50,044). 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 40% (2018: 42%) of the Fund's investments, or $480,307 (2018: $477,555), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2018: 20%) and the Euro, 5% (2018: 6%).

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 4.0% of total investments (2018: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2019:

	2019		2018	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 243,921	$ (24,392)	$ 233,291	$ (23,329)
Euro	61,876	(6,188)	68,794	(6,879)
British pound sterling	48,688	(4,869)	49,860	(4,986)
Japanese yen	30,134	(3,013)	30,367	(3,037)
Hong Kong dollar	17,022	(1,702)	14,467	(1,447)
Other foreign currency	78,666	(7,867)	80,776	(8,078)
Total foreign currency investments	$ 480,307	$ (48,031)	$ 477,555	$ (47,756)

[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 (2018: 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 (2018: 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 future liabilities include transfers to the Ministry of Economic Development and Trade and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Fund's Indirect Share	
By counterparty	Number of counterparties	2019	2018
Contracts in net favourable position (current credit exposure)	67	$ 44,639	$ 8,882
Contracts in net unfavourable position	14	(42,574)	(16,613)
Net fair value of derivative contracts	81	$ 2,065	$ (7,731)

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 $44,639 (2018: $8,882) 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	2019	2018
Structured equity replication derivatives	$ 4,048	$ (3,986)
Foreign currency derivatives	(2,231)	(5,311)
Interest rate derivatives	62	1,341
Credit risk derivatives	186	225
Net fair value of derivative contracts	$ 2,065	$ (7,731)

i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity derivative. Rights, warrants, futures and options are also included as structured equity replication derivatives.

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

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

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

v) At March 31, 2019, deposits in futures contracts margin accounts totaled $2,053 (2018: $2,060). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $3,877 (2018: $4,201) and $17 (2018: $nil).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 2000:

	Cumulative since 2000	
	2019	2018
Accumulated net income from operations	$ 858,814	$ 804,903
Transfers from the General Revenue Fund [(a)]	721,430	721,430
Accumulated transfers for research and innovation [(b)]	(504,086)	(468,586)
Accumulated surplus from operations	1,076,158	1,057,747
Accumulated net remeasurement gains	124,721	90,375
Carrying value of net financial assets	$ 1,200,879	$ 1,148,122

(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.

	2019
Spending limit for year ended March 31, 2019	$ 78,512
Transfers to EDT during 2018-19	(35,500)
Accumulated unused spending limit at March 31, 2019	43,012
4.5% of average market value on March 31, 2017-19	51,638
Spending limit for year ended March 31, 2020	$ 94,650

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2019	2018
Interest-bearing securities	$ 6,910	$ 8,165
Equities		
Canadian	5,233	5,406
Global	22,872	57,499
Private	10,097	6,192
	38,202	69,097
Inflation sensitive		
Real estate	12,160	16,774
Infrastructure	1,869	12,131
Timberland	2,623	3,106
	16,652	32,011
Strategic, tactical and currency investments	182	3,178
	$ 61,946	$ 112,451

The investment income includes realized gains and losses from disposal of pool units totalling $4,506 (2018: $14,074) and from directly held currency foreign exchange contracts totalling ($348) (2018: $393). Income distributions from the pools total $57,788 (2018: $97,984).

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)

	2019	2018
Amounts charged by AIMCo for:		
Investment Costs[a]	$ 6,540	$ 6,484
Performance based fees[a]	1,446	1,236
	7,986	7,720
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 8,035	$ 7,769
Increase in expenses	3.4%	4.3%
Increase in average investments under management	4.8%	6.4%
Increase in value of investments attributable to AIMCo	1.4%	1.1%
Investment expenses as a percent of 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]	**2019**	**2018**	**5 years**	**10 years**
Net return on investments [b]	7.8%	8.3%	9.2%	11.0%
Policy benchmark return [b]	6.4%	7.2%	7.7%	9.7%
Value added by investment manager [c]	1.4%	1.1%	1.5%	1.3%

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

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

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

NOTE 10 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

March 31, 2019

Table of Contents

Independent Auditor's Report

To the Members of the Alberta Gaming, Liquor and Cannabis Commission

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Lottery Fund (the Fund) which comprise the statement of financial position as at March 31, 2019 and the statements of operations and change in net financial assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations and its changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

May 23, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31
(in thousands of dollars)

	Note	2019	2018
Financial Assets			
Cash and cash equivalents	4	$ 24,349	$ 25,920
Due from Alberta Gaming, Liquor and Cannabis Commission	6	50,142	58,144
		74,491	84,064
Liabilities			
Accounts payable	7	$ 21,716	$ 31,289
		21,716	31,289
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, Liquor and Cannabis Commission

MANAGEMENT

[Original signed by]

Alain Maisonneuve
President and Chief Executive Officer
Alberta Gaming, Liquor and Cannabis Commission

Statement of Operations

For the year ended March 31
(in thousands of dollars)

	Note	Budget 2019	2019	2018
Revenues				
Net income from provincial lotteries	8	$ 1,438,943	$ 1,445,657	$ 1,416,872
Interest		500	1,349	746
		1,439,443	1,447,006	1,417,618
Expenses				
Lottery Fund expenditures		1,439,443	1,447,006	1,417,618
		1,439,443	1,447,006	1,417,618
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 2019	2019	2018
Annual surplus	$ -	$ -	$
Net financial assets, beginning of year	52,775	52,775	52,77
Net Financial Assets, end of year	$ 52,775	$ 52,775	$ 52,77

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, Liquor and Cannabis Commission (AGLC) under the *Gaming, Liquor and Cannabis 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 public and community-based initiatives.

The *Appropriation Act, 2018* authorizes transfers from the Lottery Fund as presented in the 2018-2019 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, 2019.

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. Statement of Compliance

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) and related interpretations as issued by the Public Sector Accounting Board.

3. Significant Accounting Policies

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.

> PSAS 3400 *Revenue* – Published in November 2018, mandatorily effective for annual reporting periods commencing on or after April 1, 2022. The Standard provides guidance on accounting for and reporting of revenue, specifically addressing revenue arising from exchange transactions and unilateral transactions. The AGLC is currently assessing the impact of adoption of this standard.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. 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, 2019, securities held by the CCITF had a time-weighted return of 1.8% per annum (March 31, 2018: 1.1% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

5. 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 the AGLC executive management and their close family members.

All the transactions, except for interest revenue, of the Lottery Fund are considered related party transactions.

6. Due from Alberta Gaming, Liquor and Cannabis 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.

	2019	2018
Due from AGLC, beginning of year	$ 58,144	$ 59,045
Net income from provincial lotteries	1,445,657	1,416,872
Transfers from AGLC	(1,453,659)	(1,417,773)
Due from AGLC, end of year	$ 50,142	$ 58,144

Amounts due from AGLC are unsecured, non-interest bearing and have no specific terms of repayment.

7. Accounts Payable

Accounts payable consists primarily of outstanding payments to the Department of Treasury Board and Finance.

8. Net Income from Provincial Lotteries

Net income from provincial lotteries received by the AGLC is recorded as revenue of the Lottery Fund.

	2019	2018
Net revenue from provincial lotteries	$ 1,301,671	$ 1,305,429
Operating expenses	(201,711)	(185,405)
Profit from operations	1,099,960	1,120,024
Other revenue	4,918	(1,982)
AGLC's share of income from Western Canada Lottery Corporation	340,779	298,830
Net income from provincial lotteries	$ 1,445,657	$ 1,416,872

9. Budget

The fiscal 2019 budgeted expenditures were authorized in total by the Province of Alberta *Appropriation Act, 2018* assented on March 28, 2018.

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ALBERTA RISK MANAGEMENT FUND

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General
OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Risk Management Fund (the Fund) which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

June 5, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands) 2019	2018
Financial Assets		
Cash and cash equivalents (Note 3)	$ 7,203	$ 2,981
Investments (Note 3)	70,662	71,035
Receivable from Province of Alberta	11	7
Accrued recoveries (Note 5)	18	14
	77,894	74,037
Liabilities		
Accounts payable (Note 6)	1,230	568
Liability for accrued claims (Note 7)	69,225	59,479
	70,455	60,047
Net Financial Assets	7,439	13,990
Net Assets		
Accumulated surplus from operations	8,989	17,483
Accumulated remeasurement losses	(1,550)	(3,493)
	$ 7,439	$ 13,990

Contractual obligations (Note 9)

The accompanying notes are part of these financial statements.

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

	($ thousands) 2019 Budget	2019 Actual	2018 Actual
Annual (deficit) surplus	$ (962)	$ (8,494)	$ 16,655
Net remeasurement gains (losses)		1,943	(934
(Decrease) Increase in Net Financial Assets		(6,551)	15,721
Net Financial Assets (Net Debt), beginning of year		13,990	(1,731
Net Financial Assets, End of Year		$ 7,439	$ 13,990

The accompanying notes are part of these financial statements.

Statements of Operations and Accumulated Surplus

Year ended March 31

	2019 Budget	2019 Actual	2018 Actual
	($ thousands)		
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 16,139	$ 16,858	$ 16,522
Other entities	1,418	746	807
Subrogation and salvage	300	188	306
Recoveries	-	2,985	8,048
Investment income	1,824	635	972
	19,681	21,412	26,655
Expenses			
Insurance claims (Note 8)	14,223	23,174	3,743
Insurance premiums to insurers	3,832	3,914	3,827
Administration	1,753	1,849	1,771
Investment expenses	-	51	48
Other services	835	918	611
	20,643	29,906	10,000
Annual (deficit) surplus	$ (962)	(8,494)	16,655
Accumulated Surplus at beginning of year		17,483	828
Accumulated surplus at end of year		$ 8,989	$ 17,483

The accompanying notes are part of these financial statements.

Statements of Remeasurement Gains and Losses

Year ended March 31

	2019	2018
	($ thousands)	
Unrealized gains (losses) on investments	$ 1,283	$ (1,345)
Realized loss on investments	660	411
Net remeasurement gains (losses)	1,943	(934)
Accumulated remeasurement losses, beginning of year	(3,493)	(2,559)
Accumulated remeasurement losses, end of year	$ (1,550)	$ (3,493)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

	($ thousands)	
	2019	**2018**
Operating Transactions		
Annual (deficit) surplus	$ (8,494)	$ 16,655
Realized losses on disposal of investments	660	411
(Increase) decrease in accrued recoveries	(4)	15
(Increase) decrease in receivables from Province of Alberta	(4)	3
Increase in payables	662	208
Increase (decrease) in liabilities for accrued claims	9,746	(7,853)
Cash provided by operating transactions	2,566	9,439
Investing Transactions		
Purchase of investments	(12,094)	(18,269)
Proceeds from disposals and repayments	13,750	10,000
Cash provided by (applied to) investing transactions	1,656	(8,269)
Increase in Cash and Cash Equivalents	4,222	1,170
Cash and Cash Equivalents, Beginning of Year	2,981	1,811
Cash and Cash Equivalents, End of Year	$ 7,203	$ 2,981
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 7,203	$ 2,981

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2019

(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 $69.2 million (2018: $59.5 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 $93.1 million as at March 31, 2019 or $24.0 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, 2018: PS3430 Restructuring Transactions. The adoption of this standard did not affect the financial statements.

b) FUTURE ACCOUNTING CHANGES

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

PS 3280 Asset Retirement Obligations (effective April 1, 2021)
Effective April 1, 2021, this standard provided guidance on how to account for and report liabilities for retirement of tangible capital assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... continued

PS3400 Revenue (effective April 1, 2022)
This standard provides guidance on how to account for and report revenue, and specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

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

NOTE 3 CASH AND INVESTMENTS

	($ thousands) 2019	2018
Cash and Cash Equivalents		
Deposits in the Consolidated Cash Investment Trust Fund [a]	$ 7,203	$ 2,981
Investments		
Deposits in the Consolidated Cash Investment Trust Fund [a]	$ 7	$ 7
General Revenue Short-Term Bond Fund [b]	70,655	71,028
Total investments [c] [d]	$ 70,662	$ 71,035

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, 2019, securities held by the CCITF have a time-weighted return of 1.7% (2018: 1.1%).

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

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

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

NOTE 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% (2018: 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, 2019, the Fund's share of securities loaned under this program is $7,638 (2018: $24,811) and collateral held totals $8,140 (2018: $26,829). 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 2.8% of total investments (2018: 2.9%).

NOTE 4 INVESTMENT RISK MANAGEMENT continued

d) LIQUIDITY RISK

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

NOTE 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) 2019	2018
Payable to Department of Treasury Board and Finance	$ 455	$ 122
Other	775	446
	$ 1,230	$ 568

NOTE 7 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $69,225 (2018: $59,479) 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, 2019 was carried out by J. S. Cheng & Partners Inc. taking into account the historical claims through March 31, 2019.

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 1.949% (2018: 2.115%).

	2019	2018
Trend rate		
General liability	2.0%	2.0%
Automobile liability	2.0%	2.0%
Property	2.0%	2.0%
Auto physical damage	3.1%	3.7%
Loss development factor		
Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada		
Selected loss rate		
General liability: *Loss per person (Alberta population)*	$ 1.10	$ 1.15
Automobile liability: *Loss per vehicle*	$ 125	$ 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, 2019:

Sensitivity Tests	Increase (Decrease) in Net Liabilities *($ millions)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 10.0
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 6% and 9%, depending on coverage type.	$ 24.0
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ (5.3)

NOTE 8 INSURANCE CLAIMS

	($ thousands) 2019	2018
Total claims payments during the year	$ 13,428	$ 11,596
Change in claims reserves	9,746	(7,853)
	$ 23,174	$ 3,743

NOTE 9 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2019 are as follows:

	($ thousands)
2019-20	637
2020-21	330
2021-22	170
2022-23	110
2023-24	110
	$ 1,357

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 $16,858 (2018: $16,967) and an accounts payable to the Department of Treasury Board and Finance of $455 (2018: $122).

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

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General
OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion
I have audited the financial statements of the Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statement of financial position as at March 31, 2019, and the statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2019, and the changes in net assets for the year ended in accordance with Canadian accounting standards for pension plans.

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

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

In preparing the financial statements, management is responsible for assessing the Provincial Judges and Masters in Chambers Reserve Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Provincial Judges and Masters in Chambers Reserve Fund's financial reporting process.

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

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

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

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

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

June 5, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands) 2019	2018
Assets		
Investments (Note 3)	$ 212,860	$ 205,805
Receivable from sale of investments	264	-
	213,124	205,805
Liabilities		
Payable from purchase of investments	363	-
Accounts payable - owing to CRA	-	9,126
	212,761	196,679
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	212,761	196,679
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

	($ thousands) 2019	2018
Increase in assets		
Employer contributions	$ 8,344	$ 9,937
Investment income (Note 5)	14,506	11,716
Refund of prior year expenditure	1,146	-
Reversal of prior year accrual - transfer of refundable tax to CRA	7,981	-
	31,977	21,653
Decrease in assets		
Investment expenses (Note 7)	803	822
Interest Expenses	-	1,146
Accrued transfer of refundable tax to CRA	-	7,981
Transfers to Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	15,092	4,740
	15,895	14,689
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(16,082)	(6,964)
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, 2019
(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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2018, the Reserve Fund adopted the accounting standard IFRS 9 – Financial Instruments on a prospective basis. There was no impact on the financial position or performance of the Fund.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... continued

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.

As at March 31, 2019, 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 $703 (2018: $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

NOTE 3 INVESTMENTS continued

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).

($ thousands)

Asset class	Fair Value Hierarchy [a] Level 2	Level 3	2019	2018
Interest-bearing securities				
Deposits and short-term securities	$ 2,241	$ -	$ 2,241	$ 5,652
Bonds and mortgages	76,106	10,215	86,321	84,650
	78,347	10,215	88,562	90,302
Public equity				
Canadian	30,451	-	30,451	28,876
Global developed	49,245	2,446	51,691	51,905
	79,696	2,446	82,142	80,781
Alternatives				
Real estate	-	27,129	27,129	22,897
Infrastructure	-	12,011	12,011	9,189
Timberland	-	1,341	1,341	933
	-	40,481	40,481	33,019
Strategic and currency investments*	(1)	1,676	1,675	1,703
Total investments	$ 158,042	$ 54,818	$ 212,860	$ 205,805

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

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

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

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $158,042 (2018: $162,151).

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $54,818 (2018: $43,654).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2019	2018
Balance, beginning of year	$ 43,654	$ 38,616
Investment income *	5,169	2,886
Purchases of Level 3 pooled fund units	10,276	7,023
Sale of Level 3 pooled fund units	(4,281)	(4,871)
Balance, end of year	$ 54,818	$ 43,654

* Investment income includes unrealized gains of $3,734 (2018: $244).

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.

NOTE 3 INVESTMENT continued

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts 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 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 2019 ($ thousands)	2019 %	Actual Asset Mix 2018 ($ thousands)	2018 %
Interest-bearing securities	30 - 50%	$ 88,562	41.6	$ 90,302	43.9
Public equities	30 - 50%	82,142	38.6	80,781	39.3
Alternatives	15 - 30%	40,481	19.0	33,019	16.0
Strategic and currency investments	(a)	1,675	0.8	1,703	0.8
		$ 212,860	100.0	$ 205,805	100.0

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

a) Credit Risk

i) Debt securities

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

The following table summarizes the Reserve Fund's investment in debt securities by credit rating at March 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	87.0%	91.7%
Speculative Grade (BB+ or lower)	0.5%	0.6%
Unrated	12.5%	7.7%
	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 Reserve Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Reserve Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Reserve Fund's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2019, The Reserve Fund's share of securities loaned under this program is $10,907 (2018: $14,212) and collateral held totals $11,561 (2018: $15,214). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

NOTE 4 INVESTMENT RISK MANAGEMENT continued

b) Foreign Currency Risk

The Reserve Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of 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 23% (2018: 25%) of the Reserve Fund's investments, or $49,090 (2018: $50,830), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 12% (2018: 13%) and the Euro, 2% (2018: 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 2.3% (2018: 2.5%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2019:

($ thousands)

	2019		2018	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 25,628	$ (2,563)	$ 26,482	$ (2,648)
Euro	4,168	(417)	5,514	(551)
Japanese yen	3,914	(391)	3,817	(382)
British pound	2,674	(267)	2,750	(275)
Hong Kong dollar	2,160	(216)	1,711	(171)
Other foreign currencies	10,546	(1,055)	10,556	(1,056)
Total foreign currency investments	$ 49,090	$ (4,909)	$ 50,830	$ (5,083)

(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 3.0% (2018: 2.9%) 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% (2018: 4.7%). 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.

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	**2019**	**2018**
Contracts in favourable position (current credit exposure)	62	$ 7,827	$ 1,995
Contracts in unfavourable position	17	(7,057)	(2,524)
Net fair value of derivative contracts	79	$ 770	$ (529)

(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 $7,827 (2018: $1,995) were to default at once.

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

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT continued

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2019	2018
Structured equity replication derivatives	$ 863	$ (473)
Foreign currency derivatives	(179)	(777)
Interest rate derivatives	65	662
Credit risk derivatives	21	59
Net fair value of derivative contracts	$ 770	$ (529)

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

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

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

(v) At March 31, 2019, deposits in futures contracts margin accounts totaled $507 (2018: $524). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $887 (2018: $681) and $3 (2018: $nil).

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	2019 Total	2018 Total
	($ thousands)			
Interest-bearing securities	$ 2,892	$ 2,384	$ 5,276	$ 1,567
Public equities				
Canadian	1,707	338	2,045	940
Foreign	3,007	(451)	2,556	6,444
	4,714	(113)	4,601	7,384
Alternatives				
Real estate	1,001	1,737	2,738	1,881
Infrastructure	178	1,629	1,807	578
Timberland	(38)	129	91	(1)
	1,141	3,495	4,636	2,458
Strategic and currency investments	11	(18)	(7)	307
	$ 8,758	$ 5,748	$ 14,506	$ 11,716

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 $(128) and $5,892 respectively (2018: $668 and $(1,782) respectively). Realized and unrealized gains and losses on currency hedges total $(18) and $2 respectively (2018: $26 and $(8) respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis and income and expense on derivative contracts.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns:

	2019	2018	2017	2016	2015
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.1	4.7	8.9	0.0	12.8
Value added (lost) by AIMCo	0.6	1.0	1.5	1.0	(0.1)
Total return on investments [(a)]	**6.7**	**5.7**	**10.4**	**1.0**	**12.7**

(a) All investment returns are provided by AIMCo and are net of investment expenses The annualized total return and policy benchmark return (PBR) on investments over five years is 7.3% (PBR: 6.4%) and ten years is 9.2% (PBR: 8.1%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands) 2019	2018
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 732	$ 699
Performance based fees [(a)]	71	123
Total investment expenses	$ 803	$ 822
(Decrease) increase in expenses	(2.3%)	6.2%
Increase in average investments under management	5.9%	11.5%
Increase in value of investments attributed to AIMCo	0.6%	1.0%
Investment expenses as a percent of dollar invested	0.4%	0.4%
Investment expenses per member	$ 2,868	$ 3,022

(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, 2019.

As at March 31, 2019 the Unregistered Plan reported an actuarial deficit of $4 million (2018: $9 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the statement of financial position as at March 31, 2019, and the statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2019, and the changes in net assets for the year ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Auditor General

June 5, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands)	
	2019	**2018**
Assets		
Investments (Note 3)	$ 142,267	$ 130,736
Receivable from participating employers	-	7
Receivable from sale of investments	211	12
	142,478	130,755
Liabilities		
Accounts payable	257	12
	142,221	130,743
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(142,221)	(130,743)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Change in Net Financial Assets

Year Ended March 31, 2019

	($ thousands)	
	2019	**2018**
Increase in assets		
Employer contributions	$ 2,435	$ 2,723
Investment income (Note 5)	9,738	9,571
	12,173	12,294
Decrease in assets		
Investment expenses (Note 7)	695	718
	695	718
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(11,478)	(11,576)
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, 2019

(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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2018, the Reserve Fund adopted the accounting standard IFRS 9 – Financial Instruments on a prospective basis. There was no impact on the financial position or performance of the Fund.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... continued

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

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

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

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

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

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

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.

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, 2019 was 9.9% (2018: 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.

NOTE 3 INVESTMENTS continued

($ thousands)

Asset class	Fair Value Hierarchy [a] Level 2	Level 3	2019	2018
Interest bearing securities				
Deposits in CCITF	$ 738	$ -	$ 738	$ 602
Bonds, mortgages and private debt	24,714	7,590	32,304	30,252
	25,452	7,590	33,042	30,854
Equities				
Canadian	22,916	-	22,916	21,168
Global	50,191	2,472	52,663	50,084
Private	-	2,245	2,245	2,381
	73,107	4,717	77,824	73,633
Alternatives				
Real estate	-	16,923	16,923	14,342
Infrastructure	-	9,828	9,828	7,615
Timberland	-	2,473	2,473	2,029
	-	29,224	29,224	23,986
Strategic, tactical and currency investments *	71	2,106	2,177	2,263
Total investments	$ 98,630	$ 43,637	$ 142,267	$ 130,736

* 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).

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).

At March 31, 2019, investments were allocated to various asset classes, with interest bearing securities comprising 23.2% (2018: 23.6%) of total investments, equities comprising 54.7% (2018: 56.3%), alternatives comprising 20.6% (2018: 18.4%) and strategic opportunities, tactical and currency investments comprising 1.5% (2018: 1.7%).

a) Fair Value Hierarchy:

The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

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

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $98,630 (2018: $94,687).

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $43,637 (2018: $36,049).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2019	**2018**
Balance, beginning of year	$ 36,049	$ 33,792
Investment income *	3,953	2,403
Purchases of Level 3 pooled fund units	8,017	4,990
Sale of Level 3 pooled fund units	(4,382)	(5,136)
Balance, end of year	**$ 43,637**	**$ 36,049**

* Investment income includes unrealized gains (losses) of $2,367 (2018: $(149)).

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.

NOTE 3 INVESTMENT continued

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of 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.

a) Credit Risk

i) Debt securities

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

The following table summarizes the Reserve Fund's investment in debt securities by credit rating at March 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	77.3%	82.9%
Speculative Grade (BB+ or lower)	0.5%	0.5%
Unrated	22.2%	16.6%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

NOTE 4 INVESTMENT RISK MANAGEMENT continued

exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Reserve Fund's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2019, the Reserve Fund's share of securities loaned under this program is $6,509 (2018: $7,071) and collateral held totals $6,895 (2018: $7,554). 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 36% (2018: 38%) of the Reserve Fund's investments, or $50,792 (2018: $50,098), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 19% (2018: 20%) and the Euro, 3% (2018: 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 Reserve Fund would be approximately 3.6% (2018: 3.8%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2019:

	($ thousands)			
	2019		**2018**	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 27,152	$ (2,715)	$ 26,700	$ (2,670)
Euro	4,526	(453)	5,608	(561)
Japanese yen	4,112	(411)	3,928	(393)
British pound	2,835	(284)	2,820	(282)
Hong Kong dollar	1,921	(192)	1,365	(137)
Brazilian real	1,754	(175)	1,655	(165)
Other foreign currencies	8,492	(849)	8,022	(802)
Total foreign currency investments	$ 50,792	$ (5,079)	$ 50,098	$ (5,010)

(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 1.5% (2018: 1.7%) 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 6.8% (2018: 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.

NOTE 4 INVESTMENT RISK MANAGEMENT continued

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2019	2018
Contracts in favourable position (current credit exposure)	66	$ 7,020	$ 1,309
Contracts in unfavourable position	15	(6,388)	(2,135)
Net fair value of derivative contracts	81	$ 632	$ (826)

(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 $7,020 (2018: $1,309) 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) 2019	2018
Structured equity replication derivatives	$ 744	$ (479)
Foreign currency derivatives	(152)	(600)
Interest rate derivatives	12	219
Credit risk derivatives	28	34
Net fair value of derivative contracts	$ 632	$ (826)

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

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

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

(v) At March 31, 2019, deposits in futures contracts margin accounts totaled $298 (2018: $290). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $575 (2018: $593) and $3 (2018: $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**	**2019 Total**	**2018 Total**
Interest bearing securities	$ 1,108	$ 828	$ 1,936	$ 532
Equities				
Canadian	1,248	244	1,492	681
Global	3,039	(359)	2,680	6,039
Private	323	25	348	118
	4,610	(90)	4,520	6,838
Alternatives				
Real estate	625	1,084	1,709	1,182
Infrastructure	282	990	1,272	474
Timberland	60	192	252	197
	967	2,266	3,233	1,853
Strategic, tactical and currency investments	36	13	49	348
	$ 6,721	$ 3,017	$ 9,738	$ 9,571

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 $98 and $2,906 respectively (2018: $779 and $(1,034) respectively). Realized and unrealized gains and losses on currency hedges total $20 and $(7) respectively (2018: $(41) and $(1) respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis and income and expense on derivative contracts.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2019	2018	2017	2016	2015
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.5	5.6	10.4	(0.7)	14.0
Value added (lost) by AIMCo	0.3	0.9	1.3	2.2	(1.1)
Total return on investments [(a)]	**6.8**	**6.5**	**11.7**	**1.5**	**12.9**

(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 7.8% (PBR: 7.1%) and ten years is 9.9% (PBR: 9.0%).

NOTE 7 INVESTMENT EXPENSES

	2019	2018
	($ thousands)	
Amounts charged by AIMCo for:		
Investment costs [a]	$ 594	$ 562
Performance based fees [a]	101	156
Total investment expenses	$ 695	$ 718
(Decrease) increase in expenses	(3.2%)	7.5%
Increase in average investments under management	9.2%	12.8%
Increase in value of investments attributed to AIMCo	0.3%	0.9%
Investment expenses as a percent of dollar invested	0.5%	0.6%
Investment expenses per member	$ 290	$ 307

(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, 2018.

As at December 31, 2018 the SRP reported an actuarial deficit of $70 million (2017: deficit of $55 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

Provincial Agencies and Other Government Organizations

Table of Contents

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

December 31, 2018

Table of Contents

These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2018 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

To the Shareholders of Alberta Capital Finance Authority

Report on the Financial Statements

Opinion
I have audited the financial statements of Alberta Capital Finance Authority which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated operating surplus, remeasurement gains and losses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 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.

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

Other information
Management is responsible for the other information. The other information comprises the information included in the Alberta Capital Finance Authority 2018 Annual Report, but does not include the financial statements and my auditor's report thereon.

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

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

Those charged with governance are responsible for overseeing the Alberta Capital Finance Authority financial reporting process.

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

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

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

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

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

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

March 20, 2019
Edmonton, Alberta

Statement Of Financial Position

As at December 31, 2018 *(in thousands of dollars)*	2018	2017
Assets		
Cash (Note 5)	$ 94,718	$ 47,298
Restricted cash (Note 5)	288,726	13,297
Accounts receivable	598	309
Accrued interest receivable on loans to local authorities	97,616	98,414
Loans to local authorities (Note 6)	15,971,147	15,612,182
Derivatives in favourable position (Note 8)	633,959	628,878
	17,086,764	**16,401,008**
Liabilities		
Accounts payable	735	574
Accrued interest payable on debt	44,515	40,558
Debt (Note 7, Schedule 1)	16,023,839	15,277,791
Derivatives in unfavourable position (Note 8)	1,020,266	1,217,242
	17,089,355	16,536,165
Net financial debt	**(2,591)**	**(135,157)**
Non-financial assets		
Tangible capital assets (Net of accumulated amortization $20; 2017 - $16)	9	14
	9	14
Accumulated deficit	**(2,582)**	**(135,143)**
Accumulated deficit is comprised of:		
Share capital, issued and fully paid (Note 9)	63	63
Accumulated operating surplus (Note 10)	485,399	447,721
Accumulated remeasurement losses	(488,044)	(582,927)
Share capital and accumulated deficit	**(2,582)**	**(135,143)**

Contractual obligations and commitments are found in Note 14.
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 Frank Hawkins]

Frank Hawkins
Chair of the Board

[Original signed by Ronald Ritter]

Ronald Ritter
Chair of Audit Committee

Statement Of Operations And Accumulated Operating Surplus

For the year ended December 31, 2018 *(in thousands of dollars)*	Budget (Note 15)	2018	2017
Interest Income			
Loans	$ 592,442	$ 578,231	$ 578,971
Loan swaps (pay fixed, receive floating)	(192,249)	(203,200)	(308,459)
Investments	4,448	5,302	2,466
	404,641	380,333	272,924
Interest Expense			
Debt	369,989	372,979	349,655
Debt swaps (receive fixed, pay floating)	(52,074)	(68,953)	(143,892)
Amortization of net discounts on debt	51,169	36,229	20,053
Amortization of commission fees	3,900	3,539	3,910
	372,984	343,794	229,726
Net interest income	**31,657**	**36,539**	**43,198**
Other income			
Realized gain on derivatives (Note 13 (g))	-	-	181,200
Realized (loss) on foreign exchange (Note 13 (g))	-	-	(181,200)
Loan prepayment fees (Note 8)	-	5,150	188
Swap termination and amendment fees (Note 8)	-	(5,141)	-
Miscellaneous income (Note 8)	-	2,518	-
	-	2,527	188
Net interest income and other income	31,657	39,066	43,386
Non-Interest Expenses			
Administration and office expenses (Note 11, 12)	1,367	1,383	1,067
Amortization of tangible capital assets	4	4	4
Write down of tangible capital assets	-	1	-
Non-interest and other expenses	1,371	1,388	1,071
Operating surplus	30,286	37,678	42,315
Accumulated operating surplus, beginning of year	444,706	447,721	405,406
Accumulated operating surplus, end of year	$ 474,992	$ 485,399	$ 447,721

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, 2018 *(in thousands of dollars)*	2018	2017
Derivatives		
Accumulated remeasurement losses on derivatives, beginning of year	$ (556,647)	$ (652,304)
Unrealized gains - fair value of derivatives	195,423	276,857
Realized gains – reclassified to statement of operations (Note 13(g))	-	(181,200)
Net remeasurement gains on derivatives for the year	195,423	95,657
Accumulated remeasurement losses on derivatives, end of year	**(361,224)**	**(556,647)**
Foreign Exchange		
Accumulated remeasurement losses on foreign exchange, beginning of year	(26,280)	(203,557)
Unrealized losses foreign currency translation	(100,540)	(3,923)
Realized losses - reclassified to statement of operations (Note 13(g))	-	181,200
Net remeasurement (losses) gains on foreign exchange for the year	(100,540)	177,277
Accumulated remeasurement losses on foreign exchange, end of year	**(126,820)**	**(26,280)**
Accumulated remeasurement losses, end of year	**$ (488,044)**	**$ (582,927)**

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

Statement Of Cash Flows

For the year ended December 31, 2018 *(in thousands of dollars)*	2018	2017
Operating Activities		
Loan interest received	$ 579,030	$ 583,107
Investments	5,022	2,242
Debt swaps (receive fixed, pay floating)	77,167	150,262
Loan prepayment fees	5,150	188
Swap termination/amendment fees	(5,141)	-
Debt interest paid	(369,021)	(344,994)
Discounts paid at debt maturity	(48,929)	(23,014)
Premiums received at debt issue	-	3174
Commission fees	(8,354)	(7,005)
Loan swaps (pay fixed, receive floating)	(218,050)	(322,014)
Cash collateral	(275,428)	(12,800)
Miscellaneous income (Note 8)	2,518	-
Administration and office expenses	(1,233)	(1,051)
Cash flows (used in) from operating activities	**(257,269)**	**28,095**
Investing Activities		
Loan principal repayments	951,450	1,220,000
Loans issued	(1,310,415)	(1,265,358)
Cash flows used in investing activities	**(358,965)**	**(45,358)**
Financing Activities		
Debt issued	11,344,094	11,688,228
Debt redemption	(10,681,070)	(11,817,586)
Proceeds on maturity of cross currency swap	-	181,200
Cash flows from financing activities	**663,024**	**51,842**
Net increase in cash	46,790	34,759
Cash, beginning of year	47,928	13,349
Cash, end of year	**$ 94,718**	**$ 47,928**

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

Notes To The Financial Statements

December 31, 2018 *(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 – ADOPTION OF NEW ACCOUNTING STANDARDS

ACFA has adopted the following standards retroactively:

Section PS 3210, *Assets*

This standard provides guidance for applying the definition of assets and establishes general disclosure standards for assets. Disclosure of information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate of the amount involved cannot be made, the reason(s) for this should be disclosed.

Section PS 3320, *Contingent Assets*

This standard defines and establishes disclosure standards on contingent assets. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely.

Section PS 3380, *Contractual Rights*

This standard defines and establishes disclosure standards on contractual rights. Disclosure of information about contractual rights is required including a description about their nature and extent and the timing.

The adoption of PS 3210, PS 3320 and PS 3380 had no impact on the financial statements for the current year or comparative year presented. Additional note disclosures as required by these standards have been provided in Notes 6 and 14.

NOTE 3 – FUTURE CHANGES TO ACCOUNTING POLICIES

The following new standards have been issued by the Public Sector Accounting Board ("PSAB"), but are not effective for the year ended December 31, 2018.

Section PS 3280, *Asset Retirement Obligations*

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

Section PS 3400, *Revenue*

Effective April 1, 2022, this standard provides guidance how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations, referred to as "exchange transactions", and transactions that do not have performance obligations, referred to as "non-exchange transactions".

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

Notes To The Financial Statements

NOTE 4 – 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.

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

Notes To The Financial Statements

(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 is recognized on an accrual basis.

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 5 – CASH

	2018	2017
Cash	**$ 94,718**	**$ 47,928**
Uncashed coupons and cheques	$ 498	$ 497
Posted Cash Collateral	$ 288,228	$ 12,800
Restricted cash	**$ 288,726**	**$ 13,297**

Cash in ACFA's operating account and uncashed coupons and cheques accounts earns interest as part of the Province of Alberta's CCITF. Amounts classified as uncashed coupons and cheques are set aside for outstanding debt obligations on unredeemed coupons, bonds. For the year ended December 31, 2018, deposits in CCITF had a time-weighted return of 1.65% per annum (2017 – 0.92% 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 8. Posted Cash Collateral earns interest as prescribed by the CSA Agreements.

Notes To The Financial Statements

NOTE 6 – LOANS TO LOCAL AUTHORITIES

	2018		2017	
Municipal authorities and regional services commissions	$ 10,417,971	65%	$10,260,564	66%
Regional airport authorities	3,997,226	25%	3,844,352	25%
Educational and health authorities	1,555,950	10%	1,507,266	9%
Amortized cost	**$15,971,147**	**100%**	**$15,612,182**	**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 and regional services commissions account for a majority of loan assets held by ACFA. This borrower category is regulated by the *Municipal Government Act*, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.
b. Regional airport authorities utilize airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.
c. Educational and health authorities have terms, conditions, and security specific to their respective loan agreements.

As at and for the year ended December 31, 2018, 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 13 (d).

Notes To The Financial Statements

NOTE 7 – DEBT

	2018	2017
Contractual principal	$ 16,098,870 (a),(b)	$ 15,338,330 (c)
Unamortized net discounts	(51,418)	(41,741)
Unamortized commission fees	(23,613)	(18,798)
	$ 16,023,839	**$ 15,277,791**

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April 2011 all ACFA debt is borrowed by the Province of Alberta. The Province of Alberta then on-lends the money to ACFA for loan disbursement and cash management (Schedule 1). ACFA is fully responsible for repaying the debt.

For the next five years, contractual debt redemption requirements by debt type, with the assumption all debt is redeemed at the maturity date, are as follows:

	Short-term	Floating	Fixed	Total
2019	$ 2,390,000	$ -	$ 275,000	$ 2,665,000
2020	-	480,000	1,322,367	1,802,367
2021	-	-	1,133,535 (a)	1,133,535
2022	-	-	1,720,000	1,720,000
2023	-	-	220,000	220,000
	2,390,000	480,000	4,670,902	7,540,902
Thereafter	-	-	8,557,968 (b)	8,557,968
	$ 2,390,000	**$ 480,000**	**$ 13,228,870**	**$ 16,098,870**

NOTES

a. £650,000 GBP ($1,133,535 CAD) fixed term debt maturing November 15, 2021 translated at the foreign exchange rate at the reporting date.

b. Includes $600,000 USD ($818,520 CAD) fixed term debt maturing August 17, 2026, $175,000 AUD ($168,280 CAD) fixed term debt maturing December 14, 2026, $310,000 AUD ($298,096 CAD) fixed term debt maturing April 11, 2028, and €225,000 EUR ($351,293 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, 2017: £650,000 GBP ($1,102,465 CAD) fixed term debt maturing November 15, 2021, $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 ($303,832 CAD) fixed term debt maturing April 11, 2028, and €225,000 EUR ($338,670 CAD) fixed term debt maturing December 1, 2043.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 13 (d).

Notes To The Financial Statements

NOTE 8 – 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 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, seven loan swaps were unwound, and two loan swaps were amended due to prepayments and resulted in $5,150 (2017 – $188) in prepayments fees recovered from local authorities and $5,141 (2017 - nil) in swap termination and amendment fees to be remitted to the swap counterparties.

Interest rate swaps include the following outstanding cross currency swaps:

	2018		2017	
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	$ 485,000	$ 470,384
European Euro	€ 225,000	$ 325,875	€ 225,000	$ 325,875
United Kingdom Pound Sterling	£ 650,000	$ 1,061,125	£ 650,000	$ 1,061,125
United States Dollar	$ 600,000	$ 787,200	$ 600,000	$ 787,200

To minimize its foreign currency risk on debt, cross currency interest rate swaps are used as described in Note 13 (g).

Notes To The Financial Statements

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	2019	2020 to 2022	2023 and after	Total
Interest rate swaps, December 31, 2018	$ 541,941	$ 4,205,466	$ 23,396,995	**$ 28,144,402**
	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**

At December 31, 2018, 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	2018	2017
Accrued interest receivable on debt swaps	$ 1,605	$ 9,820
Accrued interest payable on loan swaps	$ 26,688	$ 41,537

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 $91,840 (2017 - $117,857) and a decrease in fair value of $95,438 (2017 - $122,288), 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 ("CSA") have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. Alberta Investment Management Corporation ("AIMCo") provides collateral management services for ACFA and exchanges collateral with counterparties of behalf of ACFA.

In 2018 the Province of Alberta signed additional CSAs which resulted in the receipt of $2,518 (2017 – nil) in Make Whole Amounts. Make Whole Amounts are the positive net benefit as a result of the existing derivatives being collateralized under the CSA's signed in 2018.

These amounts are recorded as miscellaneous income in the Statement of Operations and Accumulated Operating Surplus and under operating activities in the Statement of Cash Flows.

Notes To The Financial Statements

During the year ended December 31, 2018, ACFA was required to post cash and non-cash collateral on multiple occasions. As at December 31, 2018, the following cash and non-cash collateral were outstanding:

	2018		2017	
	Cash Collateral	Non-Cash Collateral (a)	Cash Collateral	Non-Cash Collateral (a)
Posted to counterparties on ACFA's behalf on net unfavourable positions (Note 5)	$ 288,228	$ -	$ 12,800	$ 507
Received on ACFA's behalf on net favourable positions (b)	$ 13,396 (c)	$ 68,024	$ 18,403 (d)	$ 44,407

a. Non-cash collateral includes securities such as treasury bills and bonds.

b. Collateral received on ACFA's behalf is held by AIMCo and not recorded in the statement of financial position. However, in the event the counterparty defaults on the terms of the derivative financial instrument, the full balance posted is available to ACFA.

c. Received $9,820 US dollars in cash collateral which translates to $13,396 CAD dollars at the end of December 31, 2018.

d. 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 $540,650 at December 31, 2018 (2017 - $522,941) are subject to master netting arrangements against unfavourable positions of $993,966 (2017 - $1,185,169), which reduces ACFA's credit exposure by $540,650 (2017 - $522,941).

Notes To The Financial Statements

NOTE 9 – 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:

			2018		2017	
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	887	8,870	886	8,860
C	Cities	750	589	5,890	589	5,890
D	Town and villages	750	275	2,750	275	2,750
E	Educational authorities	500	76	760	76	760
Total		**7,500**	**6,327**	**$ 63,270**	**6,326**	**$ 63,260**

During the year, one Class B share and one Class D share were issued (2017 one Class B and one Class D share were issued), and one Class D share was cancelled (2017 - three Class D shares were cancelled).

NOTE 10 – 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, 2018 were $485,399 (2017 - $447,721). Capital management objectives, policies and procedures are unchanged since the preceding year.

Notes To The Financial Statements

NOTE 11 – DIRECTOR AND AUDIT COMMITTEE FEES, AND RELATED PARTY TRANSACTIONS

Director and Audit Committee fees paid by ACFA are as follows:

	2018		2017	
	Number of Positions	Total	Number of Positions	Total
Board and Audit Committee Chairs	2	$ 8	2	$ 9
Board and Audit Committee	9	24	9	25
	11	**$ 32**	**11**	**$ 34**

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 $983 (2017 - $790) 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 $213 (2017 - $72) due to related parties at December 31, 2018. Apart from the transactions noted above, there were no related party transactions with directors or management.

NOTE 12 – EXPENSE BY OBJECT

	Budget	2018	2017
Salaries and benefits	$ 724	$ 856	$ 661
Services	378	286	206
Contract services	238	175	171
Goods	9	39	10
Financial transactions and other	18	27	19
Amortization of tangible capital assets	4	4	4
	$ 1,371	**$ 1,387**	**$ 1,071**

Notes To The Financial Statements

NOTE 13 – 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 debt is legislatively limited to an aggregate principal sum of all outstanding debt and securities not to exceed $18 billion. As debt and earnings are used to fund 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 13 (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 6 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 8.

(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.

Notes To The Financial Statements

The contractual principal amounts of ACFA's interest rate sensitive assets and liabilities by maturity/ next repricing date are summarized below.

Maturity / Repricing	2019	2020 to 2022	2023 and after	Total
Financial Assets				
Cash and restricted cash	$ 383,444	$ -	$ -	$ 383,444
Accrued interest receivable on loans	97,616	-	-	97,616
Accrued interest receivable on debt swaps (a)	1,605	-	-	1,605
Loans to local authorities	1,049,412	2,520,375	12,401,360	15,971,147
December 31, 2018	**$ 1,532,077**	**$ 2,520,375**	**$ 12,401,360**	**$ 16,453,812**
Loan effective rate, 2018 (b)	3.73%	3.74%	3.77%	3.77%

	2018	2019 to 2021	2022 and after	Total
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%

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	2019	2020 to 2022	2023 and after	Total
Financial Liabilities				
Accrued interest payable on debt	$ 44,515	$ -	$ -	$ 44,515
Accrued interest payable on loan swaps (a)	26,688	-	-	26,688
Debt by type:				
Short-term (c)	2,379,190	-	-	2,379,190
Floating	480,000	-	-	480,000
Fixed (b)	275,000	4,175,902	8,777,968	13,228,870
December 31, 2018	**$ 3,205,393**	**$ 4,175,902**	**$ 8,777,968**	**$ 16,159,263**
Debt effective rate, 2018	2.66%	2.89%	2.86%	2.85%
	2018	**2019 to 2021**	**2022 and after**	**Total**
December 31, 2017	**$ 4,087,255**	**$ 2,699,832**	**$ 8,628,498**	**$ 15,415,585**
Debt effective rate, 2017 (d)	2.52%	2.93%	2.98%	2.96%

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 $2,390,000 (2017 - $1,930,000) net of discounts on short-term notes of $10,810 (2017 - $4,840).

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 $15,692,986 and $12,451,416 respectively (2017 - $15,130,185 and $11,201,416 respectively) have not been included in the above table as notional amounts do not represent either financial assets or financial liabilities. Notional amounts are not recorded in the statement of financial position.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped, and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included in the interest rate sensitivity analysis are floating rate debt and cash.

The potential impact of an immediate and sustained increase (decrease) of 25 basis points in interest rates throughout the year with all other variables held constant would impact net interest income by $7,863 increase and $7,863 decrease (2017 - $6,275 increase and $6,275 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, loan demand of local authorities and cash collateral postings under CSA agreements.

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 following table provides an estimate of all contractually required cash out flows of principal, interest and other amounts for ACFA's financial liabilities and commitments as at December 31, 2018. The table has been prepared with the assumption that all debt is redeemed at the maturity date, based on the earlier of repricing or principal repayments and excludes any estimates regarding the posting or receipt of collateral that may be required by the CSAs. Although ACFA has rigorous internal processes for managing liquidity risk, concentrations and cash shortfalls by obtaining additional short-term or long-term financing when required, the effects of this haven't been reflected in the table.

Notes To The Financial Statements

Estimated Future Cash Out Flows	2019	2020 to 2022	2023 and after	Total
Accounts payable	$ 735	$ -	$ -	$ 735
Debt by type, contractual repayments of principal:		-	-	
Short-term (a)	2,379,190	-	-	2,379,190
Floating (b)	480,000	-	-	480,000
Fixed	275,000	4,175,902	8,777,968	13,228,870
Debt by type, contractual payments of interest:				
Short-term (a)	10,810	-	-	10,810
Floating (b)	2,895	-	-	2,895
Fixed	372,817	1,008,782	2,246,984	3,628,583
Loan swaps (pay fixed, receive floating) (b)	119,253	318,413	710,798	1,148,464
Commitments for leases and supplies and services	163	281	210	654
Commitments for loans	212,736	-	-	212,736
Total	**$ 3,853,599**	**$ 5,503,378**	**$ 11,735,960**	**$ 21,092,937**

a. Comprised of contractual principal of $2,390,000 (2017 - $1,930,000) net of discounts on short-term notes of $10,810 (2017 - $4,840).

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	2019	2020 to 2022	2023 and after	Total
Accounts receivable	$ 598	$ -	$ -	$ 598
Loans, contractual collection of principal (a)	1,060,579	2,528,726	12,594,578	16,183,883
Loans, contractual receipts of interest (a)	576,611	1,554,079	3,858,159	5,988,849
Debt swaps (receive fixed, pay floating) (a) (b)	6,267	67,097	250,429	323,793
Total	**$ 1,644,055**	**$4,149,902**	**$ 16,703,166**	**$ 22,497,123**

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. $212,736 of the contractual principal to be collected are loans that ACFA has contractually committed to fund after December 31, 2018.

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, 2018, ACFA held foreign currency denominated debt as shown on the table below:

	2018				2017			
		Foreign Currency notional		Canadian dollar carrying value at December 31		Foreign Currency notional		Canadian dollar carrying value at December 31
Australian Dollar	$	485,000	$	466,376	$	485,000	$	475,349
European Euro	€	225,000	$	351,293	€	225,000	$	338,670
United Kingdom Pound Sterling	£	650,000	$	1,133,535	£	650,000	$	1,102,465
United States Dollar	$	600,000	$	818,520	$	600,000	$	752,700

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.

No foreign denominated debt matured in the current year. In the prior year, $600,000 USD denominated debt matured resulting in a loss on foreign exchange of $181,200 and a realized gain on derivatives of $181,200. 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, 2018, ACFA has no other financial instruments that are exposed to foreign currency risk.

Notes To The Financial Statements

NOTE 14 – CONTRACTUAL OBLIGATIONS AND COMMITMENTS

(a) Lease

ACFA has obligations under an operating lease expiring on February 28, 2025 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2018. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2019	$ 87	$ 76
2020	-	91
2021	-	94
2022	-	96
2023	-	97
Thereafter	-	113
Total	**$ 87**	**$ 567**

(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, 2018 were:

	Loan Commitments
2019	212,736
Total	**$ 212,736**

Notes To The Financial Statements

NOTE 15 – BUDGET

The 2018 budget was approved by the Board of Directors on December 6, 2017. Budget amounts for 2018 were prepared on an amortized cost basis and remeasurement gains and losses on derivatives were not budgeted.

NOTE 16 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were recommended for approval by the Audit Committee on March 13, 2019 and subsequently approved by the Board of Directors on March 20, 2019.

Schedule 1 – Debt

As at December 31, 2018 *(in thousands of dollars)*

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Short-term:				
January 2, 2019	1.7800%	Short-term	(b)	$ 200,000
January 2, 2019	1.6894%	Short-term	(b)	40,000
January 3 2019	1.6856%	Short-term	(b)	50,000
January 8, 2019	1.8169%	Short-term	(b)	200,000
January 15, 2019	1.8382%	Short-term	(b)	200,000
January 22, 2019	1.8596%	Short-term	(b)	200,000
February 5, 2019	1.9005%	Short-term	(b)	200,000
February 12, 2019	1.9113%	Short-term	(b)	200,000
February 19, 2019	1.9100%	Short-term	(b)	200,000
February 26, 2019	1.9235%	Short-term	(b)	200,000
March 5, 2019	1.9284%	Short-term	(b)	200,000
March 12, 2019	1.9028%	Short-term	(b)	200,000
March 19, 2019	1.9073%	Short-term	(b)	100,000
March 19, 2019	1.9117%	Short-term	(b)	200,000
				2,390,000

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Long-term:				
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
Oct-01-2020	6.2800%	Fixed		222,367
Nov-15-2021	1.0000%	Fixed	(b) (f)	1,133,535
Jun-01-2022	6.0600%	Fixed		100,000
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

Schedule 1 – Debt

As at December 31, 2018 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Apr-05-2023	5.8900%	Fixed		50,000
Dec-01-2023	5.5000%	Fixed		150,000
Dec-01-2023	5.1000%	Fixed		20,000
Dec-03-2024	5.1800%	Fixed		78,000
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)	818,520
Nov-03-2026	4.4900%	Fixed		200,000
Dec-14-2026	3.1000%	Fixed	(b) (d)	120,200
Dec-14-2026	3.1000%	Fixed	(b) (d)	48,080
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)	240,400
Apr-11-2028	3.6000%	Fixed	(b) (d)	57,696
Dec-01-2028	2.9000%	Fixed	(b)	900,000
Dec-01-2028	2.9000%	Fixed	(b)	500,000
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
Sep-20-2029	2.9000%	Fixed	(b)	150,000
Jun-01-2031	3.5000%	Fixed	(b)	1,268,000
Nov-03-2031	4.5000%	Fixed		125,396
Nov-02-2032	4.8300%	Fixed		190,383
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

Schedule 1 — Debt

As at December 31, 2017 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
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)	273,228
Dec-01-2043	1.1500%	Fixed	(b) (e)	78,065
Dec-01-2048	3.0500%	Fixed	(b)	200,000
Dec-01-2048	3.0500%	Fixed	(b)	200,000
Dec-01-2048	3.0500%	Fixed	(b)	200,000
				$ 13,708,870

Total contractual principal outstanding – 2018	16,098,870
Unamortized net (discounts)	(51,418)
Unamortized commission fees	(23,613)
Total amortized debt – 2018	**$ 16,023,839**
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**

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

December 31, 2018

Table of Contents

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Independent Auditor's Report

To the Members of Alberta Insurance Council

Opinion

We have audited the financial statements of Alberta Insurance Council (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of changes net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies
  (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in Alberta Insurance Council's Annual Report.

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

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

We obtained the information, other than the financial statements and the auditors' report thereon, included in Alberta Insurance Council's Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Original signed by KPMG LLP, Chartered Professional Accountants]

Edmonton, Canada

April 16, 2019

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2018, with comparative information for 2017

		2018		2017
Assets				
Current assets:				
Cash and cash equivalents (note 2)	$	5,730,121	$	8,738,384
Short-term investments (note 3)		3,999,998		-
Accounts receivable		37,257		39,104
Prepaid expenses and other assets		94,543		68,618
		9,861,919		8,846,106
Other assets		25,000		41,500
Capital assets (note 4)		726,681		741,051
	$	10,613,600	$	9,628,657
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	$	442,055	$	577,886
Deferred license, assessment, and continuing education fee revenue (note 5)		2,878,608		2,809,769
		3,320,663		3,387,655
Asset retirement obligations (note 6)		113,931		66,069
Deferred rent and tenant inducements (note 7)		226,641		305,140
		3,661,235		3,758,864
Net assets:				
Invested in capital assets (note 8)		492,521		500,118
Internally restricted (note 9)		1,300,000		750,000
Unrestricted		5,159,844		4,619,675
		6,952,365		5,869,793
Commitments and contingencies (note 10)				
	$	10,613,600	$	9,628,657

See accompanying notes to financial statements.

Original signed by Chair, Audit Committee

Original signed by Chair, Alberta Insurance Council

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	2018 Budget	2018	2017
Revenue:			
License, assessment, examination and continuing education fees	$ 6,630,000	$ 6,772,905	$ 6,664,716
Interest and other	51,000	116,607	72,472
	6,681,000	6,889,512	6,737,188
Expenses:			
Manpower (note 11)	3,609,000	3,187,777	3,167,811
Occupancy and premises	820,000	751,437	776,071
Amortization of capital assets	320,000	317,738	308,466
Councils, boards and committees (note 12)	445,000	320,173	284,231
Software and computer	560,000	400,249	574,757
Office and administration	337,000	321,088	263,187
Professional fees	254,000	210,455	209,818
Communications	182,000	168,041	148,509
Travel	130,000	129,666	125,281
Loss on disposal of capital assets	-	316	-
	6,657,000	5,806,940	5,858,131
Excess of revenue over expenses	$ 24,000	$ 1,082,572	$ 879,057

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Change in Net Assets

Year ended December 31, 2018, with comparative information for 2017

	Invested in capital assets	Internally restricted	Unrestricted	2018
Net assets, beginning of year	$ 500,118	$ 750,000	$ 4,619,675	$ 5,869,793
Excess of revenue over expenses	-	-	1,082,572	1,082,572
Net change in invested in capital assets (note 8)	(7,597)	-	7,597	-
Transfers to internally restricted	-	550,000	(550,000)	-
	$ 492,521	$ 1,300,000	$ 5,159,844	$ 6,952,365

	Invested in capital assets	Internally restricted	Unrestricted	2017
Net assets, beginning of year	$ 517,556	$ 750,000	$ 3,723,180	$ 4,990,736
Excess of revenue over expenses	-	-	879,057	879,057
Net change in invested in capital assets (note 8)	(17,438)	-	17,438	-
	$ 500,118	$ 750,000	$ 4,619,675	$ 5,869,793

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 1,082,572	$ 879,057
Items not involving cash:		
Accretion of asset retirement obligation	762	610
Amortization of deferred tenant inducements	(54,635)	(54,635)
Recognition of deferred rent	(23,863)	(15,337)
Amortization of capital assets	317,738	308,466
Loss on disposal of capital assets	316	-
Decrease (increase) in accounts receivable	1,847	(26,965)
(Increase) decrease in prepaid expenses and other assets	(25,925)	3,193
Decrease (increase) in other assets	16,500	(41,500)
(Decrease) increase in accounts payable and accrued liabilities	(135,832)	180,162
Increase in deferred license, assessment and continuing education fee revenue	68,839	91,872
	1,248,319	1,324,923
Investing activities:		
Purchase of capital assets	(306,836)	(237,003)
Purchase of Guaranteed Investment Certificates	(3,999,998)	-
Increase in asset retirement obligation	47,100	-
Proceeds on sale of capital assets	3,152	-
	(4,256,582)	(237,003)
(Decrease) increase in cash and cash equivalents	(3,008,263)	1,087,920
Cash and cash equivalents, beginning of year	8,738,384	7,650,464
	$ 5,730,121	$ 8,738,384

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2018

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, 2018

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	3 - 10 years
Computer equipment	3 - 7 years
Computer software	3 - 7 years
Leasehold improvements	Term of lease
Telephone equipment	3 - 5 years

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. **Significant accounting policies (continued):**

(f) Internally restricted net assets:

The Council has established internally restricted net assets in the amount of $1,300,000 (2017 - $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. Management has elected to record all investments at cost.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

ALBERTA INSURANCE COUNCIL
Notes to Financial Statements (continued)

Year ended December 31, 2018

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) Change in accounting policies:

The Council has adopted the following accounting standards effective January 1, 2018: PS2200 *Related Party Transactions*, PS3420 *Inter-Entity Transactions*, PS3210 *Assets*, PS3320 *Contingent Assets* and PS3380 *Contractual Rights*. The adoption of these standards has resulted in certain changes to disclosures in the financial statements.

(k) Future accounting standard pronouncements:

The following summarizes upcoming changes to public sector accounting standards. In 2019, the Council will continue to assess the impact and prepare for the adoption of these standards. While the timing of standard adoption may vary, the requirements of PS1201 *Financial Statement Presentation*, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation* and PS3041 *Portfolio Investments* must be implemented at the same time.

Standard	Effective date (fiscal years beginning on or after)
PS3430 - Restructuring Transactions	April 1, 2018
PS1201 - Financial Statement Presentation	April 1, 2021
PS3450 - Financial Instruments	April 1, 2021
PS2601 - Foreign Currency Translation	April 1, 2021
PS3041 - Portfolio Investments	April 1, 2021
PS3280 - Asset Retirement Obligations	April 1, 2021
PS3400 - Revenue	April 1, 2022

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2018

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of $4,505,867 (2017 - $7,804,777) 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, 2018 was 1.63% (2017 - 0.95%).

3. Short-term investments:

Short-term investments consist of Guaranteed Investment Certificates (GIC's) with fixed annual interest rates ranging from 1.10% to 2.45%, and maturity dates ranging from May 2019 to December 2019.

4. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Furniture and office equipment	$ 430,419	$ 333,048	$ 97,371	$ 117,038
Computer equipment	557,905	382,888	175,017	184,509
Computer software	775,798	604,621	171,177	135,711
Leasehold improvements	1,190,399	917,554	272,845	292,677
Telephone equipment	19,770	9,499	10,271	11,116
	$ 2,974,291	$ 2,247,610	$ 726,681	$ 741,051

5. Deferred license, assessment, and continuing education fee revenue:

	2018	2017
License	$ 2,782,433	$ 2,715,344
Assessment	82,125	82,125
Continuing education	14,050	12,300
	$ 2,878,608	$ 2,809,769

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, 2018

6. Asset retirement obligations:

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 1.87% (2017 - 0.94%). Amortization of $6,029 (2017 - $6,029) is included in amortization of capital assets, and accretion expense in the amount of $610 (2017 - $610) has been included with occupancy costs. The undiscounted asset retirement obligation is $68,000 as at December 31, 2018 (2017 - $68,000).

The Council has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs for its Calgary premises, using the discount rate of 1.87% (2017 – n/a). Amortization of $2,479 (2017 – n/a) is included in amortization of capital assets, and accretion expense in the amount of $153 has been included with occupancy costs. The undiscounted asset retirement obligation is $50,000 as at December 31, 2018.

The estimated carrying value of the Edmonton leasehold improvements is $130,000 at December 31, 2018 (2017 - $185,000), and the estimated carrying value of the Calgary leasehold improvements is $86,000 at December 31, 2018 (2017 - $89,000).

7. Deferred rent and tenant inducements:

		2018		2017
Deferred tenant inducements	$	120,229	$	174,864
Deferred rent		106,412		130,276
	$	226,641	$	305,140

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2018

8. Invested in capital assets:

(a) Invested in capital assets is calculated as follows

		2018		2017
Capital assets	$	726,681	$	741,051
Asset retirement obligation		(113,931)		(66,069)
Deferred tenant inducements		(120,229)		(174,864)
	$	492,521	$	500,118

(b) Change in net assets invested in capital assets is calculated as follows:

		2018		2017
Net change in investment in capital assets:				
Amortization of capital assets	$	(317,738)	$	(308,466)
Purchase of capital assets		306,836		237,003
Amortization of deferred tenant inducements		54,635		54,635
Increase in asset retirement obligation		(47,100)		-
Proceeds on sale of capital assets		(3,152)		-
Accretion of asset retirement obligation		(762)		(610)
Loss from disposal of capital assets		(316)		-
	$	(7,597)	$	(17,438)

9. Internally restricted net assets:

The provision in internally restricted net assets has been increased to reflect increases in estimated capital expenditures over the medium term.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2018

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 3 years are as follows:

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.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2018

11. Manpower:

	Full Time Employees	Salary[a]	Benefits and other[b]	2018 Total	2017 Total
Chief Executive Officer	1	$ 280,000	$ 58,389	$ 338,389	$ 300,637
Chief Operating Officer	1	230,000	39,306	269,306	276,988
Other staff	29	2,141,103	438,979	2,580,082	2,590,186
	31	$ 2,651,103	$ 536,674	$ 3,187,777	$ 3,167,811

(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, 2018

12. Councils, boards and committees:

(a) The following amounts are included in Councils, boards and committees expenses:

		2018		2017
Councils and Council Committees	$	193,351	$	144,637
Appeal Boards		59,244		58,556
Accreditation Committee		67,578		81,038
	$	320,173	$	284,231

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	2018[iii] $	Number of members	2017[iii] $
Councils[i]				
Alberta Insurance Council - Chair[ii]	2	20,375	1	14,850
Other - Chairs	11	80,912	12	58,402
Members	41	131,289	51	122,567
Total	54	232,576	64	195,819

(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) This amount includes per diem payments for attendance at Alberta Insurance Council, Audit Committee, and the Chair annual stipend. The Vice Chair assumed the duties of the Chair in 2017 and amounts include per diem payments for attendance at Alberta Insurance Council, and the Chair annual stipend. The position of Chair was filled during 2018.

(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, 2018

13. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2018 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2017.

(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 2017.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through its interest bearing deposit in the CCITF.

During 2018, the Council entered into certain short term fixed rate investments. Details of these investments are included in note 3 of the financial statements.

Other than as disclosed above, there have been no significant changes to the interest rate risk exposure from 2017.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Investment Management Corporation (the Corporation) which comprise the statement of financial position as at March 31, 2019, and the statements of operations, change in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2019, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

May 30, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, (*Thousands of Canadian dollars*)	**2019**	**2018**
Financial assets		
Cash and cash equivalents (Note 6)	$ 101,125	$ 82,476
Accounts receivable	17,429	16,679
Other assets	2,416	2,416
	120,970	101,571
Liabilities		
Accounts payable and accrued liabilities	9,525	6,558
Accrued employment liabilities (Note 7)	117,852	102,989
Advance from the Province of Alberta (Note 8)	58,349	58,349
Pension liabilities (Note 9)	3,946	3,726
Deferred lease inducement (Note 16)	2,299	1,173
	191,971	172,795
Net debt	(71,001)	(71,224)
Non-financial assets		
Tangible capital assets (Note 10)	65,387	67,774
Prepaid expenses	9,261	7,097
	74,648	74,871
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	Original signed by
Richard Bird Board Chair	Tom Woods Audit Committee Chair

Statement of Operations

For the year ended March 31, (*Thousands of Canadian dollars*)	2019 Budget (Note 17)	2019	2018
Revenue			
Cost recoveries	$ 498,339	$ 588,411	$ 558,312
Interest income	-	1,044	518
Total revenue	498,339	589,455	558,830
Expenses			
Third-party investment management fees (Note 12)	191,175	198,763	176,703
Third-party performance fees (Note 12)	63,937	111,624	117,430
Third-party asset administration, legal, and other (Note 12)	77,178	84,747	89,186
Salaries, wages and benefits	106,512	129,731	120,604
Data, subscriptions and maintenance services	23,610	25,758	20,478
Amortization of tangible capital assets (Note 10)	14,401	14,547	13,381
Administrative expenses	7,411	8,334	7,623
Contract and professional services	6,406	7,704	6,413
Rent	6,977	7,189	6,280
Interest	732	1,058	732
Total expenses	498,339	589,455	558,830
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*)	**2019 Budget (Note 17)**	**2019**	**2018**
Annual surplus	$ -	$ -	$ -
Acquisition of tangible capital assets (Note 10)	(14,468)	(12,160)	(10,442)
Amortization of tangible capital assets (Note 10)	14,401	14,547	13,381
Change in prepaid expenses	-	(2,164)	(1,075)
Decrease in net debt in the year	(67)	223	1,864
Net debt at beginning of year	(71,224)	(71,224)	(73,088)
Net debt at end of year	$ (71,291)	$ (71,001)	$ (71,224)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*Thousands of Canadian dollars*)	**2019**	**2018**
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets (Note 10)	14,547	13,381
Amortization of deferred lease inducement	1,126	(749)
Change in pension liabilities	220	232
	15,893	12,864
(Increase) in accounts receivable	(750)	(4,522)
(Increase) in prepaid expenses	(2,164)	(1,075)
Increase in accounts payable and accrued liabilities	2,967	1,820
Increase in accrued employment liabilities	14,863	19,656
Cash provided by operating transactions	30,809	28,743
Capital transactions		
Acquisition of tangible capital assets (Note 10)	(12,160)	(10,442)
Cash applied to capital transactions	(12,160)	(10,442)
Financing transactions		
Repayment of advance from the Province of Alberta	-	(5,000)
Cash applied to financing transactions	-	(5,000)
Increase in cash and cash equivalents	18,649	13,301
Cash and cash equivalents at beginning of year	82,476	69,175
Cash and cash equivalents at end of year	$ 101,125	$ 82,476
Supplementary information		
Cash used for interest	$ 874	$ 521

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2019 (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 $115.2 billion (2018: $107.1 billion) at March 31, 2019, 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, 2018, the Corporation has prospectively adopted Canadian Public Sector Accounting Standards ("PSAS") Handbook Sections PS 3430 "Restructuring Transactions".

PS 3430 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. This accounting change did not have an 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 $198,763 (2018: $176,703), third-party performance fees, which are recorded as $111,624 (2018: $117,430),

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

a) Measurement Uncertainty (continued)

and pension liabilities, which are recorded as $3,946 (2018: $3,726) 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 (2019 and 2018: $nil).

<u>Other Assets</u>
Other assets are valued at the lower of cost and net recoverable value.

e) Liabilities

Liabilities are recorded at cost to the extent that they represent present obligations as a result of past events and transactions occurring prior to the end of the fiscal year, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

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.

<u>Tangible Capital Assets</u>
Tangible capital assets are recognized at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Computer systems hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation.

Work in progress, which includes development of operating systems, is not amortized until after a project is complete (or substantially complete) and the asset is put into service.

The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

Computer systems hardware and software	5 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 (2019 and 2018: $nil).

<u>Prepaid Expenses</u>
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 standards:

PS 3280 Asset Retirement Obligations (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 this standard on the financial statements.

PS 3400 Revenue (effective April 1, 2022)
This standard provides guidance on how to account and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. Management is currently assessing the impact of this standard on the financial statements.

NOTE 6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

as at March 31, (Thousands of Canadian dollars)	2019	2018
Deposit in Consolidated Cash Investment Trust Fund	$ 100,767	$ 82,308
US bank account	67	67
Great British Pounds bank account	291	101
	$ 101,125	$ 82,476

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, 2019, securities held by the Fund have a time-weighted return of 1.52% per annum (2018: 1.03% per annum).

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, (Thousands of Canadian dollars)	2019	2018
Annual incentive plan (a)	$ 39,843	$ 35,194
Long-term incentive plan (b)	73,734	63,488
Restricted fund unit incentive plan (c)	910	1,068
Accrued vacation, salaries and benefits	3,365	3,239
	$ 117,852	$ 102,989

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, 2019 was $33,278 (2018: $29,887) which was recorded in salaries, wages and benefits.

b) Long-Term Incentive Plan

The Corporation provides retention incentives to certain employees through an LTIP and an RFU plan. The LTIP program provides the opportunity for a performance payment for generating superior average value-add over a four-year period. Officers and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance and vest at the end of the fourth calendar period subsequent to the grant date. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they vest after four years and providing all vesting and plan conditions have been met by the employee, they will pay between zero and three times the size of the grant based on 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 2019 calendar year is $888,000.

Information about the target, stretch target, and actual results achieved for the last five calendar years is as follows:

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

b) Long-Term Incentive Plan (continued)

(Thousands of Canadian dollars)

	Target	Stretch Target	Value Add for Compensation Purposes[1]
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
2018	267,667	803,000	939,500
Total	$ 1,348,500	$ 4,045,500	$ 3,697,300

[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 $5,492 (2018: $3,883).

The accrued LTIP liability as at March 31, 2019 of $73,734 (2018: $63,488) reflects the current value of all outstanding LTIP grants, 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)	2019		2018	
	Original (Notional) Value		Original (Notional) Value	
LTIP grants outstanding, beginning of year	$ 53,114	$ 63,488	$ 48,078	$ 52,247
Granted	17,024	279	14,469	237
Accrual	-	33,479	-	35,009
Forfeited	(775)	(1,039)	(2,045)	(3,706)
Paid	(7,729)	(22,475)	(7,388)	(20,299)
LTIP grants outstanding, end of year	$ 61,634	$ 73,732	$ 53,114	$ 63,488

The maximum potential obligation related to the LTIP as at March 31, 2019 was $184,902 (2018: $159,402). Total expense related to the LTIP for the year ended March 31, 2019 was $32,720 (2018: $31,570), 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, 2019 of $910 (2018: $1,068) reflects the current value of all outstanding RFU grants, based on actual results to that date from the date they were awarded.

Information about total RFU grants awarded and outstanding is as follows:

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

c) Restricted Fund Unit Incentive Plan (continued)

for the year ended March 31, (Thousands of Canadian dollars)	2019		2018	
	Notional Value		Notional Value	
RFU grants outstanding, beginning of year	$ 1,019	$ 1,068	$ 1,778	$ 1,406
Granted	485	485	25	7
Accrual	-	56	-	497
Paid	(597)	(699)	(784)	(842)
RFU grants outstanding, end of year	$ 907	$ 910	$ 1,019	$ 1,068

Total expense related to the RFU plan for the year ended March 31, 2019 was $541 (2018: $503) 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, 2019 (2018: $nil). As at March 31, 2019, the outstanding advance from the Province totaled $58,349 (2018: $58,349).

The advance is a revolving demand credit facility up to a maximum of $70,000. The advance is repayable within six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 1.50% (2018: 0.87%). Interest expense on the advance is $874 (2018: $521) and is included in the Statement of Operations. At March 31, 2019, 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)	2019	2018
Accrued retirement obligation		
Beginning of year	$ 6,438	$ 5,946
Current service cost	538	546
Interest cost	195	172
Benefits paid	(35)	(31)
Actuarial loss (gain)	618	(195)
End of year	7,754	6,438
Plan assets		
Fair value, beginning of year	2,851	2,229
Actual return on plan assets	48	215
Employer contributions	209	219
Employee contributions	209	219
Benefits paid	(35)	(31)
End of year	3,282	2,851
Funded status - plan deficit	(4,472)	(3,587)
Unamortized net actuarial loss (gain)	526	(139)
Reported liability	$ (3,946)	$ (3,726)
Current service cost	538	546
Interest cost	195	172
Expected return on plan assets	(85)	(64)
Amortization of net actuarial (gain) loss	(10)	16
Less: employee contributions	(209)	(219)
Total SRP expense	$ 429	$ 451

The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. An actuarial valuation for funding purposes was prepared as of December 31, 2018. An extrapolation of the actuarial valuation dated December 31, 2018 was performed to March 31, 2019.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

as at March 31,	2019	2018
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,	2019	2018
Annual discount rate	3.2%	2.8%
Annual salary increase - base	2.0%	2.0%
Expected long-term return on plan assets	6.3%	5.6%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% decrease in the discount rate assumption would result in an increase in the reported liability by $1,933 as at March 31, 2019 (2018: $1,625). A 1% increase in the salary scale assumption would result in an increase in the reported liability by $1,338 as at March 31, 2019 (2018: $1,478). A 1% increase in the inflation rate assumption would result in an increase in the reported liability by $732 as at March 31, 2019 (2018: $626).

Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan ("MEPP") and the Public Service Pension Plan ("PSPP"). The Corporation also participates in a defined contribution pension plan and a defined contribution supplementary retirement plan, established for employees hired after the formation of the Corporation on January 1, 2008.

The Corporation's expense for the pension and disability plans was equivalent to the annual contributions of $5,791 (2018: $6,093) for the year ended March 31, 2019 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, 2018, MEPP reported a surplus of $670,700 (2017: surplus of $866,006) and PSPP a surplus of $519,218 (2017: surplus of $1,275,843).

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	2019	2018
Cost					
Opening balance	$ 114,167	$ 13,580	$ 4,771	$ 132,518	$ 122,076
Additions	10,559	1,139	462	12,160	10,442
Disposals	(919)	-	-	(919)	-
Closing balance	123,807	14,719	5,233	143,759	132,518
Accumulated amortization					
Opening balance	50,423	10,709	3,612	64,744	51,363
Amortization expense	12,440	1,611	496	14,547	13,381
Effect of disposals	(919)	-	-	(919)	-
Closing balance	61,944	12,320	4,108	78,372	64,744
Net book value at March 31	$ 61,863	$ 2,399	$ 1,125	$ 65,387	$ 67,774

Cost includes work-in-progress at March 31, 2019 totaling $3,822 (2018: $4,056) 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)	2019	2018
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2018: $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 (2018: $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, 2019, 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, 2019, assets under administration totaled approximately $115.2 billion (2018: $107.1 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)	2019	2018
Pension plans	$ 74,647,724	$ 69,234,771
Ministry of Treasury Board and Finance		
General revenue and entity investment funds [(1)]	11,244,799	9,471,436
Endowment funds (including the Alberta Heritage Savings Trust Fund)	23,119,580	22,047,275
Insurance-related funds	3,028,061	3,245,299
Other government Ministry investment funds	3,191,366	3,115,869
	$ 115,231,530	$ 107,114,650

[(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)	2019	2018
Fixed income		
Fixed income [(1)]	$ 36,374,619	$ 35,269,548
Private mortgages	3,949,109	3,298,205
Private debt and loan	1,474,382	928,777
Inflation sensitive		
Real estate	16,099,581	13,944,218
Infrastructure and timber	10,379,341	8,101,618
Real return bonds and commodities	765,526	953,473
Equities		
Public equities and absolute return strategies	41,519,387	40,374,540
Private equity and venture capital	4,483,728	4,068,523
Overlays	185,857	175,748
	$ 115,231,530	$ 107,114,650

[(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, 2019 and the prior year, there were no transactions between the Corporation and Key Management Personnel and their Close Family Members, that did not take place at fair market value.

AIMCo’s direct and indirect cost recoveries revenue for the investment management services the Corporation provides do not include a profit margin. As a result, these revenues are not at fair market value.

The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

NOTE 14 RELATED PARTY TRANSACTIONS (continued)

for the year ended March 31, (Thousands of Canadian dollars)	2019	2018
Revenues		
Direct cost recoveries (1)(2)(3)	$ 370,567	$ 383,036
Indirect cost recoveries (1)(2)(3)	185,645	174,894
Interest income	1,044	518
	557,256	558,448
Expenses		
Interest on advance from the Province of Alberta	874	521
Contracted services (4)	897	851
	1,771	1,372
Assets		
Accounts receivable (1)(2)(3)	9,892	16,556
Liabilities		
Accounts payable	898	41
Advance from the Province of Alberta	58,349	58,349
	$ 59,247	$ 58,390

(1) Recovered from government funds, pension plans and other entities under common control.

(2) Prior year figures have been updated to conform with current year presentation.

(3) Effective March 1, 2019, Bill 27 was enacted resulting in Local Authorities Pension Plan, Public Service Pension Plan and Special Forces Pension Plan no longer being considered under government control for this note. Cost recoveries from these three Plans are included in this note up to February 28, 2019.

(4) 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 officers of the Corporation earned for the year ended March 31, 2019 in accordance with direction from the Ministry of Treasury Board and Finance.

for the year ended March 31, (Thousands of Canadian dollars)						**2019**	**2018**
	Base Salary[(1)]	**Incentive Plan Annual**[(2)]	**Incentive Plan Long-Term**[(3)]	**Other Cash Benefits**[(4)]	**Other Non-Cash Benefits**[(5)]	**Total**	Total
Chairman of the Board[(6)(7)]	$ -	$ -	$ -	$ 112		$ 112	$ 95
Board Members[(6)]	-	-	-	543		543	494
Chief Executive Officer	500	1,362	1,500	-	82	3,443	2,058
Chief Investment Officer	425	1,213	1,841	-	74	3,552	3,450
EVP, Public Equities	300	621	954	-	58	1,933	1,922
EVP, Fixed Income	300	642	924	-	58	1,924	1,892
Chief Corporate Officer	285	361	428	1	41	1,115	1,025
Chief Financial Officer[(8)]	285	465	-	-	42	792	390
SVP, Operations[(9)]	242	212	290	-	37	781	771
Chief Legal Officer	260	287	162	-	48	757	753
Chief Risk Officer	275	375	-	174	42	866	848
Chief Client and Stakeholder Relations Officer	240	176	-	1	37	454	498

(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 10 independent members during fiscal 2018-19, 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 in fiscal 2017-18.
(8) The incumbent commenced employment with the Corporation on September 5, 2017.
(9) The SVP, Operations will be transitioning from AIMCo in 2020, and effective September 2018 took on a non-Executive Committee member role. The amounts shown are based on the full year.

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 2016, 2017 and 2018 but not vested are estimated as at March 31, 2019 based on actual performance for calendar years 2016, 2017 and 2018 and pro forma multipliers of 1.0 (target) for future years. For awards granted in 2019, the future payout is estimated as at March 31, 2019 based on pro forma multipliers of 1.0 (target) for calendar year 2019 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, 2018	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2019
Chief Executive Officer	$ 2,000	$ 875	$ (500)	$ -	$ 2,375
Chief Investment Officer	2,740	800	(614)	-	2,926
EVP, Public Equities	1,563	423	(318)	-	1,668
EVP, Fixed Income	1,653	518	(308)	-	1,863
Chief Corporate Officer	770	285	(143)	-	913
Chief Financial Officer(1)	114	114	-	-	228
SVP, Operations(2)	519	-	(97)	-	422
Chief Legal Officer	434	158	(54)	-	538
Chief Risk Officer	495	165	-	-	660
Chief Client and Stakeholder Relations Officer	192	96	-	-	288

	Estimated Future Payout				
(Thousands of Canadian dollars)	As at March 31, 2018	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2019
Chief Executive Officer	$ 4,026	$ 3,475	$ (1,500)	$ -	$ 6,001
Chief Investment Officer	5,362	3,819	(1,841)	-	7,341
EVP, Public Equities	2,908	1,401	(954)	-	3,354
EVP, Fixed Income	3,482	1,979	(924)	-	4,536
Chief Corporate Officer	1,509	1,037	(428)	-	2,117
Chief Financial Officer(1)	114	190	-	-	304
SVP, Operations(2)	1,008	601	(290)	-	1,318
Chief Legal Officer	804	545	(162)	-	1,187
Chief Risk Officer	805	517	-	-	1,322
Chief Client and Stakeholder Relations Officer	286	232	-	-	519

(1) The incumbent commenced employment with the Corporation on September 5, 2017.
(2) The SVP, Operations will be transitioning from AIMCo in 2020, and effective September 2018 took on a non-Executive Committee member role. The amounts shown are based on the full year.

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.

(Thousands of Canadian dollars)	Original (Notional) Value				
	As at March 31, 2018	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2019
Chief Risk Officer	147	-	-	-	147

(Thousands of Canadian dollars)	Estimated Future Payout				
	As at March 31, 2018	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2019
Chief Risk Officer	170	4	(174)	-	-

NOTE 16 CONTRACTUAL OBLIGATIONS

Contractual obligations of $165,824 (2018: $77,627) 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)	2019
2020	$ 32,850
2021	24,822
2022	17,786
2023	11,169
2024	6,912
Thereafter	72,285
Total	$ 165,824

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.

The Corporation also entered into a lease agreement commencing February 26, 2018 for 10 years.

During the year ended March 31, 2019, the Corporation entered into a lease agreement commencing January 1, 2020, for 15 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,875 which will be recognized as a reduction in lease expense over the 15-year term of the lease.

The total deferred lease inducement as at March 31, 2019 is $2,299 (2018: $1,173).

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, 2019 the balance outstanding against the facility is $152,089 (2018: $190,754).

NOTE 17 2018-2019 BUDGET

The Corporation's budget for the year ended March 31, 2019 was approved by the Board of Directors on December 8, 2017.

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, 2019, 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, 2019 is $1,005 (2018: $1,022) and $66 (2018: $67), 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 (2018: $583).

NOTE 19 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on May 30, 2019.

ALBERTA PENSION SERVICES CORPORATION

Financial Statements

December 31, 2018

Table of Contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Pensions Services Corporation, which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 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.

Basis for opinion

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

Other information

Management is responsible for the other information. The other information obtained at the date of the auditor's report comprises the information included in the Alberta Pensions Services Corporation Annual Report The Future is Now 2018, but does not include the financial statements and my auditor's report thereon.

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

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

If based on the work I have performed on the other information obtained prior to the date of the auditor's report, I conclude that there is a material misstatement of the other information, I am required to report the fact. I have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Alberta Pensions Services Corporation financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

April 30, 2019
Edmonton, Alberta

Alberta Pensions Services Corporation

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31

(in thousands)	2018		2017
	Budget	**Actual**	Actual
Expenses			
Staff and related expenses	**$ 35,331**	**$ 34,216**	$ 33,721
Contract services	**2,815**	**2,893**	2,664
Materials and supplies	**4,530**	**4,545**	4,323
Amortization	**5,977**	**5,699**	5,596
Data processing and maintenance	**5,758**	**6,016**	6,041
Total before plan specific and employer specific services	**54,411**	**53,369**	52,345
Plan specific services (Note 5)	**4,322**	**3,987**	3,110
Employer specific services (Note 6)	**39**	**39**	39
Total operating expenses	**$ 58,772**	**$ 57,395**	$ 55,494
Recovery of costs (Note 7)	**$ 58,772**	**$ 57,395**	$ 55,494
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 by

COLIN P. MACDONALD, Q.C.
Chair, Board of Directors

Original signed by

ROGER ROSYCHUK
Chair, Audit Committee

Alberta Pensions Services Corporation

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(in thousands)

		2018		2017
Financial assets				
Cash	**$**	**357**	$	357
Accounts receivable		**84**		8
Due from pension plans (Note 7)		**4,567**		4,945
		5,008		5,310
Liabilities				
Accounts payable and accrued liabilities	**$**	**3,056**	$	2,658
Accrued salaries and benefits		**2,442**		2,710
Accrued vacation pay		**543**		402
Deferred lease inducement (Note 12)		**111**		298
Capital lease obligation (Note 12)		**79**		119
		6,231		6,187
Net debt	**$**	**(1,223)**	$	(877)
Non-financial assets				
Tangible capital assets (Note 8)	**$**	**40,323**	$	45,212
Prepaid expenses		**1,223**		877
		41,546		46,089
Net assets before spent deferred capital contributions		**40,323**		45,212
Spent deferred capital contributions (Note 8)		**40,323**		45,212
Net assets (Note 9)	**$**	**–**	$	–

Contingent liabilities (Note 13)

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

Alberta Pensions Services Corporation

STATEMENT OF CHANGE IN NET DEBT

YEAR ENDED DECEMBER 31

(in thousands)	2018		2017
	Budget	Actual	Actual
Annual surplus (deficit)	$ –	$ –	$ –
Acquisition of tangible capital assets (Note 8)	(2,200)	(810)	(1,450)
Amortization of tangible capital assets (Note 8)	5,977	5,699	5,596
Change in spent deferred capital contributions	(3,777)	(4,889)	(4,146)
Change in prepaid expenses	–	(346)	518
(Increase) Decrease in net debt	–	(346)	518
Net debt at beginning of year	(877)	(877)	(1,395)
Net debt at end of year	$ (877)	$ (1,223)	$ (877)

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)

	2018	2017
Operating transactions		
Annual surplus (deficit)	**$ –**	$ –
Non-cash items included in annual surplus (deficit):		
Amortization of tangible capital assets (Note 8)	**5,699**	5,596
Decrease in deferred lease inducement (Note 12)	**(187)**	(187)
Amortization of spent deferred capital contributions	**(5,699)**	(5,596)
	(187)	(187)
(Increase) decrease in accounts receivable	**(76)**	11
(Increase) decrease in prepaid expenses	**(346)**	518
Decrease in due from pension plans	**378**	1,736
Increase (decrease) in accounts payable and accrued liabilities	**398**	(2,042)
(Decrease) increase in accrued salaries and benefits	**(268)**	76
Increase (decrease) in accrued vacation pay	**141**	(13)
Cash provided by operating transactions	**40**	99
Capital transactions		
Acquisition of tangible capital assets (Note 8)	**(810)**	(1,450)
Cash applied to capital transactions	**(810)**	(1,450)
Financing transactions		
Increase in spent deferred capital contributions (Note 8)	**810**	1,450
Repayment of capital lease obligation (Note 12)	**(40)**	(40)
Cash provided by financing transactions	**770**	1,410
Increase in cash	**–**	59
Cash at beginning of year	**357**	298
Cash at end of year	**$ 357**	$ 357

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 Government of Alberta's *Joint Governance of Public Sector Pension Plans Act* received Royal Assent on December 11, 2018. The transition to be effective March 1, 2019 will change the trustee of LAPP, PSPP, and SFPP from the Minister to LAPP Corporation, PSPP Corporation, and SFPP Corporation respectively. These plans will be registered under the *Employment Pension Plans Act.*

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. 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). Refer to Note 16 for further details.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS).

Recovery of Costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for the recovery of costs are recognized as the related expenses are incurred.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Valuation of Financial Assets and Liabilities

The Corporation's financial assets and liabilities are generally measured as follows:

FINANCIAL STATEMENT COMPONENT	MEASUREMENT
Cash and cash equivalents	Cost
Accounts receivable and due from pension plans	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 are present obligations of the Corporation to external organizations and individuals arising from past transactions or events occurring before the year end, the settlement of which is expected to result in future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

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.

Leases of tangible capital assets which transfer substantially all the benefits and risks of ownership are accounted for as leased tangible capital assets. Capital lease liabilities are recognized at the present value of the minimum lease payments excluding executory costs (e.g. insurance, maintenance costs, etc.). The discount rate used to determine the present value of the lease payments is the lower of the Corporation's rate for incremental borrowing or the interest rate implicit in the lease. 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.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

Use of Estimates

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recognized in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

4. FUTURE ACCOUNTING CHANGES

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

- **PS 3280 Asset Retirement Obligations (effective April 1, 2021)**
  Effective April 1, 2021, this standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.
- **PS 3400 Revenue (effective April 1, 2022)**
  This standard provides guidance on how to account for and report on revenue, and specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

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	2018	2017
SFPP	**$ 1,503**	$ 1,068
PSPP	**1,128**	988
MEPP	**784**	781
LAPP	**260**	73
PSM(CM)PP	**147**	27
SRP	**71**	100
Judges Registered Pension Plan	**71**	44
Judges Unregistered Pension Plan	**12**	21
MLAPP	**11**	8
	$ 3,987	$ 3,110

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		2018		2017
City of Edmonton	$	1	$	1
EPCOR		1		1
Government of Alberta		1		1
Legislative Assembly / Alberta Health Services		1		1
		4		4
Alberta Investment Management Corporation[1]		35		35
	$	39	$	39

[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, 2018, $4,567 (2017 - $4,945) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

Plan		2018		2017
LAPP	$	37,370	$	36,482
PSPP		13,221		13,038
SFPP		2,605		2,121
MEPP		2,537		2,479
SRP		747		756
PSM(CM)PP		403		282
Judges Registered Pension Plan		210		119
Judges Unregistered Pension Plan		137		96
MLAPP		92		58
		57,322		55,431
Interest and other miscellaneous cost recoveries		34		24
Employer specific services (Note 6)		39		39
	$	57,395	$	55,494

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

8. TANGIBLE CAPITAL ASSETS

(in thousands)

						2018	2017
	Compass system	Computer hardware & software[2]	Leasehold improvements	Furniture & equipment	Telephone system	Total	Total
Estimated useful life	12 years	3 years	Note 3(a)	5 years	3 years		
Historical Cost[1]							
Beginning of year	$ 49,200	$ 8,202	$ 6,335	$ 1,528	$ 45	$ 65,310	$ 64,065
Additions	500	310	-	-	-	810	1,450
Disposals, including write-downs	-	(314)	-	-	-	(314)	(205)
	49,700	8,198	6,335	1,528	45	65,806	65,310
Accumulated Amortization							
Beginning of year	7,837	4,537	6,265	1,414	45	20,098	14,707
Amortization expense	4,080	1,522	38	59	-	5,699	5,596
Effect of disposals, including write-downs	-	(314)	-	-	-	(314)	(205)
	11,917	5,745	6,303	1,473	45	25,483	20,098
Net Book Value at December 31, 2018	$ 37,783	$ 2,453	$ 32	$ 55	$ -	$ 40,323	
Net Book Value at December 31, 2017	$ 41,363	$ 3,665	$ 70	$ 114	$ -		$ 45,212

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, 2018 totalling $nil (2017 - $1,385) comprised of computer hardware and software $nil (2017 - $1,385).

2 Cost of computer hardware under capital lease is $199 and related accumulated amortization is $143.

Alberta Pensions Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

9. SHARE CAPITAL

	2018	2017
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 $3,364 for the year ended December 31, 2018 (2017 - $3,611). 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, 2017, PSPP reported a surplus of $1,275,843 (2016 - surplus of $302,975), MEPP reported a surplus of $866,006 (2016 - surplus of $402,033) and SRP had a deficiency of $54,984 (2016 - deficiency of $50,020).

11. RELATED PARTY TRANSACTIONS

(in thousands)

Related parties are those entities consolidated using either line by line or modified equity basis in the Government of Alberta's Consolidated Financial Statements. Related parties also include key management personnel and close family members of those individuals in the Corporation. The Corporation and its employees paid or collected certain taxes and fees set by regulation for premiums, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The Corporation had the following transactions with related parties reported in the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	2018	2017
EXPENSES		
Data processing, software licences, printing, postage and training	**$ 1,319**	$ 678
Risk management and insurance	**134**	142
Management training	**8**	7
	$ 1,461	$ 827
Payable to Service Alberta	**$ 392**	$ 263

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
2019	$ 1,708	$ 40	$ 1,748
2020	27	39	66
Thereafter	-	-	-
	$ 1,735	$ 79	$ 1,814

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. Refer to Note 16 for further details.

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 $319.

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

(in thousands)

APS is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate. As at December 31, 2018 accruals totaling $nil (2017: $nil) have been recognized as a liability.

APS has been named in 12 (2017: 13) claims, the outcomes of which 5 claims are likely and 7 cases are not determinable. In most cases these claims have been filed jointly and severally against APS, one of the Pension Plans and in some cases involve third parties. Of the likely claims, 3 (2017: nil) have a specified amount totaling $2,518 (2017: $nil). Of the indeterminate claims, 1 (2017: 1) has a specified amount totaling $800 (2017: $800). The remaining 6 (2017: 12) indeterminate 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 2018 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. SUBSEQUENT EVENTS

On February 27, 2019, the Corporation renewed the lease of its current facility for a renewal term of five years to commence on September 1, 2019 subject to the terms and conditions of the lease.

Effective March 1, 2019, the Corporation entered into Pension Services Agreements with the trustees of LAPP, PSPP, and SFPP in accordance with the terms of the *Joint Governance of Public Sector Pension Plans Act* that came into force December 11, 2018. Effective March 1, 2019, a Pension Administration Services Agreement was entered into with the Minister for all plans for which the Minister is the Trustee. The Agreements set forth the terms and conditions of the services provided by the Corporation to the Minister, the pension plans, and the respective pension plan corporations, as applicable.

17. 2018 BUDGET

The Corporation's 2018 budget was approved by the Board of Directors on November 28, 2017.

18. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements of the Corporation.

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ALBERTA SECURITIES COMMISSION

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor
General
OF ALBERTA

To the Members of the Alberta Securities Commission

Report on the Financial Statements

OPINION

I have audited the financial statements of the Alberta Securities Commission which comprise the statement of financial position as at March 31, 2019, and the statements of change in net financial assets, operations, remeasurement gains and losses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2019, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BASIS FOR OPINION

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

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Alberta Securities Commission financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

June 12, 2019
Edmonton, Alberta

Statement of Financial Position

thousands of dollars	**At March 31, 2019**	At March 31, 2018
Financial Assets		
Cash (Note 3)	**14,099**	17,691
Accounts receivable	**37**	29
Investments (Note 4)	**62,202**	45,273
	76,338	62,993
Liabilities		
Accounts payable and accrued liabilities	**3,163**	5,606
Lease inducements	**1,558**	1,792
Accrued pension liability (Note 6)	**10,055**	9,814
	14,776	17,212
Net Financial Assets	**61,562**	45,781
Non-Financial Assets		
Capital assets (Note 5)	**5,010**	5,410
Prepaid expenses	**276**	197
	5,286	5,607
Accumulated Surplus	**66,848**	51,388
Accumulated surplus is comprised of:		
Accumulated operating surplus	**65,682**	51,352
Accumulated remeasurement gains	**1,166**	36
	66,848	51,388

Commitments and contingent liabilities (Note 9)

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

Approved by the Members

Original signed by

STAN MAGIDSON
Chair and Chief Executive Officer

Original signed by

KAREN KIM
Chair of the Audit Committee

June 12, 2019

Statement of Change in Net Financial Assets

thousands of dollars For year ended March 31

	2019 Budget (Note 10)	2019 Actual	2018 Actual
Operating Surplus	7,967	14,330	15,652
Acquisition of capital assets	(860)	(780)	(1,050)
Amortization of capital assets	1,200	1,180	1,067
Losses on sale of capital assets		-	1
Proceeds on sale of capital assets		-	1
Prepayment of expenses		(573)	(467)
Reduction of prepaid expenses		494	511
Net remeasurement gains (losses)		1,130	(569)
Increase in net financial assets	8,307	15,781	15,146
Net financial assets, beginning of year	45,781	45,781	30,635
Net financial assets, end of year	54,088	61,562	45,781

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

Statement of Operations

thousands of dollars — For year ended March 31

	2019 Budget (Note 10)	2019 Actual	2018 Actual
Revenues			
Fees (Note 7)	49,128	53,722	52,965
Investment income (Note 4(C))	1,500	2,072	1,818
Other enforcement receipts (Note 7)	725	569	503
Administrative penalties (Note 3)	250	77	71
Conference and other	58	41	35
	51,661	56,481	55,392
Regulatory Expenses			
Salaries and benefits	30,568	29,828	28,719
Premises	4,500	4,407	3,693
Administration	3,478	3,145	3,006
Professional services	3,113	2,778	2,540
Amortization of capital assets (Note 5)	1,200	1,180	1,067
Investor education	835	813	715
	43,694	42,151	39,740
Operating Surplus	7,967	14,330	15,652
Accumulated Operating Surplus, beginning of year	51,352	51,352	35,700
Accumulated Operating Surplus, end of year	59,319	65,682	51,352

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

	2019	2018
Accumulated remeasurement gains, beginning of year	36	605
Unrealized gains (losses) on investments during the year	1,127	(304)
Amounts reclassified during the year to the Statement of Operations	3	(265)
Net remeasurement gains (losses) for the year	1,130	(569)
Accumulated remeasurement gains, end of year	1,166	36

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

Statement of Cash Flows

thousands of dollars

For year ended March 31

	2019	2018
Operating Transactions		
Fees and other	53,462	53,474
Payments to and on behalf of employees	(31,348)	(28,052)
Payments to suppliers for goods and services	(11,538)	(9,894)
Investment income	272	174
Other enforcement receipts (Note 7)	569	503
Administrative penalties (Note 3)	77	71
Cash received from operating transactions	11,494	16,276
Capital Transactions		
Cash used to acquire capital assets	(1,092)	(939)
Proceeds on sale of capital assets	-	1
Cash used in capital transactions	(1,092)	(938)
Investing Transactions		
Decrease in restricted cash (Note 3)	-	535
Purchases of investments	(13,994)	(14,997)
Cash used in investing transactions	(13,994)	(14,462)
(Decrease) increase in cash	(3,592)	876
Cash, beginning of year	17,691	16,815
Cash, end of year	14,099	17,691

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

Notes to the Financial Statements

March 31, 2019

Note 1: Nature of Operations

The ASC is the regulatory agency responsible for administering the province's securities laws and is exempt from income tax under the *Income Tax Act* (Canada).

Note 2: Significant Accounting Policies and Reporting Practices

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

A) INVESTMENTS

The Alberta Investment Management Corporation (AIMCo) invests in pooled investment funds in accordance with the asset mix approved by the ASC. AIMCo controls the creation, management and administration of the pools, including security selection. Accordingly, the ASC does not participate in capital market investment decisions or transactions.

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (I), (II), and (III) below. Fixed-income securities and equities consist of units in pooled investment funds. The units are recognized at fair value based on the fair value of the financial instruments held in the pools.

I. VALUATION OF INVESTMENTS

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

- public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, any price point between the bid/ask spread that is deemed to be most representative of fair value; and
- private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

The pools hold derivative contracts including equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, and equity index futures contracts.

II. INVESTMENT INCOME AND EXPENSES

Income from investment in units of the pools and expenses and transaction costs incurred by the pools are allocated to the ASC based on the ASC's pro-rata share of units in each pool. Investment services provided by AIMCo are charged directly to the pools on a cost-recovery basis. 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 pooled units and realized gains and losses on sale of pool units. When 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 and accounts payable and accrued liabilities are recognized at cost. Accounts receivable are recognized at the lower of cost and net recoverable value. The fair values of each of these line items approximates their carrying values due to their short-term nature. See Notes 2(A) and (G) for the valuation of investments and the accrued pension liability, respectively.

C) CAPITAL ASSETS

Capital assets are recognized at cost less accumulated amortization, which includes amounts directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Capital assets are written down when conditions indicate that they no longer contribute to the ASC's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations. Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leaseholds	one 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 maintains a supplemental pension plan for certain designated executives of the ASC. This plan is limited to existing members; no new members have been added since 2014. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on service as well as management's best estimate of economic assumptions. Past service costs and actuarial gains and losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of the related employee group in the Supplemental Pension Plan. The average remaining service period of active employees in the supplemental pension plan is 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.

I) MEASUREMENT UNCERTAINTY

Financial statements prepared in conformity with PSAS require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include the value of investments, the value of accrued employee benefit liabilities and the useful lives of capital assets. Actual results could differ from these estimates.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of an ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. It is not possible to estimate the amount, if any, of subsequent recoveries.

J) RESTRICTED CASH

The *Securities Act* (Alberta) requires the use of revenue from administrative penalties to be used towards certain operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

K) CHANGE IN ACCOUNTING POLICIES

PS3430 Restructuring Transactions was effective on April 1, 2018. The adoption of this standard did not affect the ASC's financial statements.

L) FUTURE ACCOUNTING CHANGES

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

PS3280 Asset Retirement Obligations (effective April 1, 2021)

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

PS3400 Revenue (effective April 1, 2022)

Effective April 1, 2022, this standard provides guidance on how to account for and report revenue. More specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

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

Note 3: Cash and Restricted Cash

thousands of dollars	2019	2018
Cash	14,099	17,691

Net financial assets include accumulated net administrative penalty revenue represented as restricted cash. The change in restricted cash is comprised of:

thousands of dollars	2019	2018
Administrative Penalties		
Assessed penalties	1,170	980
Less provision for uncollectible amounts	(1,170)	(973)
Plus recoveries of prior-year assessments	76	58
	76	65
Interest income and other	1	6
Administrative penalties	77	71
Plus conference fees	40	34
Less eligible restricted cash expenses (investor education)	(117)	(640)
Decrease in restricted cash	–	(535)
Restricted cash, beginning of year	–	535
Restricted cash, end of year	–	–

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality fixed income securities, with a maximum term-to-maturity of three years. As at March 31, 2019, the ASC received an annualized return of 1.8 per cent (1.1 per cent in F2018).

Note 4: Investments

A) SUMMARY

thousands of dollars	2019				2018		
Investments	Cost	Remeasurement Gains	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	42,214	862	43,076	69.2	31,885	31,587	69.8
Global equities	14,421	105	14,526	23.4	10,150	10,331	22.8
Canadian equities	4,092	199	4,291	6.9	2,974	3,127	6.9
CCITF deposit	309	–	309	0.5	228	228	0.5
	61,036	1,166	62,202	100.0	45,237	45,273	100.0

The carrying amounts of the ASC's investments are recognized on a fair-value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The fixed-income pool includes a mix of high-quality government and corporate (public and private) fixed-income securities and debt-related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded equities from Canadian and global market index participants. The equity pools use derivatives as part of AIMCo's global strategy.

FAIR VALUE HIERARCHY

The measure of reliability is determined based on the following:

I. LEVEL ONE:

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

II. LEVEL TWO:

Fair value is estimated using valuation techniques that make use of market observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts. All of the ASC's investments are in Level Two.

III. LEVEL THREE:

Fair value is estimated using inputs based on non-observable market data.

B) INVESTMENT RISK MANAGEMENT

The ASC is exposed to financial risks associated with the underlying securities held in the investment funds. These financial risks include credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk.

I. CREDIT RISK

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

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

Credit Rating	2019	2018
Investment Grade (AAA to BBB-)	**95.8%**	98.4%
Speculative Grade (BB+ or lower)	**0.6%**	0.6%
Unrated	**3.6%**	1.0%
	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, 2019		March 31, 2018	
Currency	**Fair Value**	**Sensitivity***	**Fair Value**	**Sensitivity***
U.S. Dollar	**8,697**	**870**	6,270	627
Euro	**1,381**	**138**	1,240	124
Japanese Yen	**1,208**	**121**	870	87
British Pound Sterling	**817**	**82**	630	63
Swiss Franc	**400**	**40**	270	27
Australian Dollar	**320**	**32**	240	24
Other Foreign Currency	**882**	**88**	430	43
Total Foreign Currency Investments	**13,705**	**1,371**	9,950	995

**Sensitivity refers to the fair value impact when the value of the Canadian dollar increases by 10 per cent against all other currencies, with all other variables held constant.*

III. INTEREST RATE RISK

The ASC is exposed to interest rate risk 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 5.6 per cent of total investments (5.0 per cent in F2018).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2019:

	<1 year	**1–5 years**	**Over 5 years**	**Repurchase Agreements****
Interest-bearing securities	28.4%	39.4%	67.4%	(35.2%)

***All repurchase agreements are less than 21 months.*

IV. PRICE RISK

The ASC is exposed to price risk associated with the underlying equity investments held in investment funds. Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. If equity market indices (S&P/TSX and MSCI ACWI and their sectors) declined by 10.0 per cent, and all other variables are held constant, the potential loss in fair value to ASC would be approximately 3.4 per cent of total investments (3.3 per cent in F2018).

V. LIQUIDITY RISK

Liquidity risk is the risk that the ASC will encounter difficulty in meeting obligations associated with its financial liabilities. Income generated from investments and by investing in publicly traded liquid assets traded in active markets that are easily sold and converted to cash contribute to the ASC's liquidity.

C) INVESTMENT INCOME

The ASC's investment income includes $1.2 million from interest-bearing securities ($832,000 in F2018) and $847,000 from equities ($986,000 in F2018). This income is net of investment fees of $139,000 ($89,000 in F2018). The ASC's investments earned a return of 6.0 per cent for the year ended March 31, 2019 (3.9 per cent in F2018). 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 6.2 per cent in F2019 and a benchmark return of 3.1 per cent in F2018.

Note 5: Capital Assets

thousands of dollars	Computer Equipment & Software	Furniture & Equipment	Leaseholds	2019 Total	2018 Total
Estimated useful life	3 years	10 years	Lease duration		
Cost					
Beginning of year	3,805	2,893	7,004	13,702	13,020
Additions	618	156	6	780	1,050
Disposals	(728)	(1)	–	(729)	(368)
	3,695	3,048	7,010	13,753	13,702
Accumulated amortization					
Beginning of year	2,898	1,983	3,411	8,292	7,591
Amortization expense	451	260	469	1,180	1,067
Disposals	(728)	(1)	–	(729)	(366)
	2,621	2,242	3,880	8,743	8,292
Net book value	1,074	806	3,130	5,010	5,410

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	2019	2018
Supplemental Pension Plan	10,055	9,814

The following pension expense for the plans is included in the Statement of Operations under salaries and benefits:

thousands of dollars	2019	2018
Public Service Pension Plan	1,252	1,316
Registered Retirement Savings Plan (RRSP)	712	674
Supplemental Pension Plan	570	1,050
	2,534	3,040

A) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2018, the Public Service Pension Plan reported a surplus of $519.2 million (a surplus of $1.3 billion as at December 31, 2017). The ASC is not responsible for future funding of any plan deficit other than through contribution increases.

B) RRSP

The ASC makes RRSP contributions on behalf of employees who do not participate in the Public Service Pension Plan.

C) SUPPLEMENTAL PENSION PLAN

The ASC has a Supplemental Pension Plan 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 as a designated executive. Members of the Supplemental Pension Plan become vested in 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	**2019**	2018
Supplemental Pension Plan		
Accrued benefit and unfunded obligation	**9,480**	9,262
Unamortized actuarial gain	**575**	552
Accrued benefit liability	**10,055**	9,814

thousands of dollars	**2019**	2018
Accrued Benefit Obligation		
Accrued benefit obligation at beginning of year	**9,262**	9,934
Service cost	**242**	300
Interest cost	**304**	350
Benefits paid	**(328)**	(325)
Actuarial gain – experience and assumptions	**-**	(997)
Accrued benefit obligation at end of year	**9,480**	9,262

thousands of dollars	**2019**	2018
Pension Expense for the Supplemental Pension Plan		
Service cost	**242**	300
Interest cost	**304**	350
Amortization of actuarial losses during the year	**24**	400
	570	1,050

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	2019	2018
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%	2.00%
Salary increases, year-end obligation*	2.50%	2.50%
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	2019	2018
Fees		
Annual financial statements	19,381	19,581
Registration	16,924	16,382
Distribution of securities	16,691	16,239
SEDI, exempt distributions and registration late filing fees	625	656
Orders (applications)	101	107
	53,722	52,965

thousands of dollars	2019	2018
Other Enforcement Receipts		
Settlement payments, disgorgements and cost recoveries assessed	3,852	362
Less provision for uncollectible amounts	(3,337)	(251)
Plus recoveries of prior-year assessments	54	392
	569	503

Note 8: CSA National Systems

The CSA National Systems include the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. Though not expected to occur, as one of the agreement signatories, the ASC commits to pay 25.0 per cent of any shortfall from approved system operating costs that exceeds revenue. Any revenue in excess of system operating costs (surplus) is accumulated for future systems operations, including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at March 31, 2019, the accumulated operating surplus totalled $173.4 million ($162.9 million at March 31, 2018). This was primarily made up of $122.8 million of investments comprised of a notice account earning 2.25 per cent, marketable securities held in a one-year term deposit earning 3.0 per cent and a guaranteed investment certificate that pays interest at 2.95 per cent; $27.0 million in intangible assets; and $20.3 million in cash held by the Ontario Securities Commission earning interest at 2.1 per cent. 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 relate to the lease of premises to November 30, 2025 and rental of office equipment to 2024 totalling $32.6 million ($37.0 million in F2018). These commitments become expenses of the ASC when the terms of the contracts are met.

thousands of dollars	
2019–20	4,717
2020–21	4,897
2021–22	5,169
2022–23	5,239
2023–24	5,308
Thereafter	8,986
Total	34,316

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 F2019 budget was originally approved on December 13, 2017 and was subsequently amended and approved by the Commission on June 6, 2018. The final budget included an additional $390,000, mainly in salaries and benefits to enhance the ASC's collections efforts.

Note 11: Related Party Transactions

The ASC is related through common ownership to all Alberta provincial government ministries, agencies, boards, commissions and Crown corporations. Related parties also include key management personnel of the ASC and close family members of those individuals. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded these transactions at exchange amounts. Total transaction costs of $78,000 ($79,000 in F2018) were recognized in administration and investor education expenses, primarily for transcript and postage services, insurance and investor education. Investment income is net of investment fees paid to AIMCo of $139,000 ($89,000 in F2018). As at March 31, 2019, $10,000 ($500 in F2018) related to these transactions was outstanding in accounts payable.

Note 12: Comparative Figures

Certain F2018 figures have been reclassified to conform to the F2019 presentation. The comparative figures from Note 4 related to the fair value hierarchy have been reclassified to conform to the presentation adopted in F2019. The current classification of investments within the hierarchy reflect the quality and reliability of the valuation of the pool units, while the previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

Schedule 1 - Salary and Benefits Disclousure

thousands of dollars				2019	2018
	Base salary[1]	Other Cash benefits[2]	Other Non-cash benefits[3]	Total	Total
Chair and Chief Executive Officer (CEO), Alberta Securities Commission[4]	492	-	14	506	505
Executive Director, Alberta Securities Commission	379	134	123	636	678
Vice-Chair, Alberta Securities Commission[4,5]	375	123	50	548	483
Vice-Chair, Alberta Securities Commission[4,6]	271	33	80	384	-
Independent Members of the Alberta Securities Commission (aggregate)[7]	567	-	-	567	597

[1] *Base salary includes regular salary or independent members' compensation.*

[2] *Other cash benefits may include vacation payouts, variable pay, transit allowance, memberships, study leave and automobile allowance.*

[3] *Other non-cash benefits may include the employer's share of all employee benefits and contributions or payments made on behalf of employees, including RRSP, supplementary pension plans*, health care, dental coverage, group life insurance, long-term disability plan, parking, professional memberships and tuition fees.*

[4] *The Chair and Vice-Chairs are full-time Commission Members.*

[5] *This Vice-Chair does not participate in the Supplemental Retirement Plan (SRP), but participates in the RRSP program. This RRSP benefit is reported under Other Non-cash benefits.*

[6] *This Vice-Chair's term commenced on May 8, 2018. This position was vacant in F2018.*

[7] *The Independent Members' compensation includes total fees paid for governance responsibilities of $321,000 ($328,000 in F2018) and hearing and application panel participation of $246,000 ($269,000 in F2018).*

Independent Member fees include:

	2019
Annual retainer	$ 10,000
Committee memberships (other than Audit Committee)	$ 2,500
Committee memberships (Audit Committee)	$ 4,000
Committee chairing (other than Audit Committee)	$ 5,000
Committee chairing (Audit Committee)	$ 8,000
Lead independent member	$ 5,000
Meeting attendance fee	$1,000 per day for an ASC meeting; $750 for a Committee meeting
Hearing fees	$1,500 per hearing day; and $200 per hour of related preparation, review and decision writing
Hearing fees (Panel Chair)	$2,000 per hearing day; and $250 per hour of related preparation, review and decision writing

**Under the terms of the SPP, executive officers may receive supplemental retirement payments. Retirement arrangement costs are not cash payments in the period but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. SPP provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.*

Supplemental Retirement Benefits

ANNUAL EXPENSE

thousands of dollars			2019	2018
	Current service costs	**Prior service and other costs**	**Total**	Total
Chair and CEO, Alberta Securities Commission[1]	**–**	**–**	**–**	–
Executive Director, Alberta Securities Commission	**71**	**18**	**89**	183
Vice-Chair, Alberta Securities Commission[2]	**–**	**–**	**–**	–
Vice-Chair, Alberta Securities Commission[3]	**42**	**2**	**44**	–

ACCRUED OBLIGATIONS

thousands of dollars	Accrued obligation March 31, 2018	Changes in accrued obligation	**Accrued obligation March 31, 2019**
Chair and CEO, Alberta Securities Commission[1]	–	–	**–**
Executive Director, Alberta Securities Commission	1,536	123	**1,659**
Vice-Chair, Alberta Securities Commission[2]	–	–	**–**
Vice-Chair, Alberta Securities Commission[3]	582	67	**649**

[1] *The Chair and CEO does not participate in the SPP, but participates in the RRSP program. This benefit is reported under Other Non-cash benefits.*

[2] *This Vice-Chair does not participate in the SPP, but participates in the RRSP program. This benefit is reported under Other Non-cash benefits.*

[3] *This Vice-Chair's term commenced on May 8, 2018. In both this role and her prior role at the ASC, she was a member of the SPP.*

N. A. PROPERTIES (1994) LTD.

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the Shareholder of N.A. Properties (1994) Ltd.

Report on the Financial Statements

Opinion

I have audited the financial statements of N.A. Properties (1994) Ltd., which comprise the statement of financial position as at March 31, 2019, and the statements of operations and surplus, and change in net financial assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of N.A. Properties (1994) Ltd. as at March 31, 2019, and the results of its operations and its changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of N.A. Properties (1994) Ltd. in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing N.A. Properties (1994) Ltd.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the N.A. Properties (1994) Ltd.'s financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of N.A. Properties (1994) Ltd.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on N.A. Properties (1994) Ltd.'s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause N.A. Properties (1994) Ltd. to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

June 5, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands) 2019	2018
Financial Assets		
Cash and cash equivalents (Note 4)	$ 3,198	$ 3,142
Note receivable (Note 5)	191	158
	3,389	3,300
Liabilities		
Obligations under indemnities and commitments (Note 6)	-	63
Net Financial Assets and Net Assets		
Net assets (Note 7)	$ 3,389	$ 3,237

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, 2019

	($ thousands) 2019	2018
Net operating surplus	$ 152	$ 80
Increase in Net Financial Assets	152	80
Net Financial Assets, Beginning of year	3,237	3,157
Net Financial Assets, End of Year	$ 3,389	$ 3,237

The accompanying notes are part of these financial statements.

Statement of Operations and Surplus

Year Ended March 31, 2019

	($ thousands)	
	2019	**2018**
Revenues		
Interest and other	$ 89	$ 60
Operating income before provision	89	60
Recovery of obligations under indemnities and commitments (Note 6)	63	20
Annual surplus	152	80
Net assets, beginning of year	3,237	3,157
Net assets, end of year	$ 3,389	$ 3,237

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2019
(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.

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 Company was not impacted by PS 3430 Restructuring Transactions effective April 1, 2018

e) FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has approved the following accounting standard:

- **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 this standard on the financial statements.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2019 the deposits in the bank had a time weighted return of 1.8% per annum (2018: 1.1%) 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, 2019 is $191 (2018: $158). 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 $nil at March 31, 2019 (2018: $63). 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)	
	2019	**2018**
Beginning balance	$ 63	$ 83
Recovery of obligations under indemnities and commitments	(63)	(20)
Ending balance	$ -	$ 63

NOTE 7 NET ASSETS

Net assets consists of the following:

	($ thousands)	
	2019	**2018**
Share capital	$ 5,769	$ 5,769
Accumulated deficit	(2,380)	(2,532)
Net assets	$ 3,389	$ 3,237

Share capital consists of the following:

		($ thousands)	
		2019	**2018**
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, 2019 nor for the prior year ended March 31, 2018.

NOTE 9 FEES AND SALARIES

There were no director’s fees or salaries paid during the year. The Company had no employees in 2019 nor in the prior year 2018.

NOTE 10 BUDGET

The Company’s annual budget appears in the 2018-19 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.

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GAINERS INC.

Consolidated Financial Statements

September 31, 2018

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

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, 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 Gainers Inc. as at September 30, 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
February 13, 2019
Edmonton, Alberta

Consolidated Statement of Financial Position

As at September 30, 2018

	($ thousands) 2018	2017 (Restated)
Financial Assets		
Cash	$ -	$ -
Investment in and amount due from former affiliate (Note 3)	-	-
	$ -	$ -
Liabilities		
Accounts payable and accrued liabilities	$ 17	$ 14
Principal and interest on prior years income taxes (Note 4)	11,334	11,334
Long-term debt (Note 5)	193,402	193,327
	204,753	204,675
Net Debt and Net Liabilities		
Accumulated Liability (Note 7)	(204,753)	(204,675)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Change in Net Debt

Year ended September 30, 2018

	($ thousands) 2018 Budget	2018 Actual	2017 Actual
Expenses			
Legal expenses	$ -	$ 75	$ 102
General and administrative	-	3	5
Annual deficit	-	(78)	(107)
Accumulated deficit, beginning of year	-	(204,675)	(204,568)
Accumulated deficit, end of year	$ -	$ (204,753)	$ (204,675)

The accompanying notes are part of these consolidated financial statements.

Approved by the Board of Directors

Original signed by

Dan Harrington, Director

Consolidated Statement of Operations

Year ended September 30, 2018

	($ thousands) 2018 Budget	2018 Actual	2017 Actual
Expenses			
Legal expenses	$ -	$ 75	$ 102
General and administrative	-	3	5
Annual deficit	-	(78)	(107)
Accumulated deficit, beginning of year	-	(204,675)	(204,568)
Accumulated deficit, end of year	$ -	$ (204,753)	$ (204,675)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended September 30, 2018

	($ thousands) 2018	2017 (Restated)
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (78)	$ (107)
(Decrease) increase in payables	3	4
	(75)	(103)
Financing activities		
Proceeds from long-term debt	75	103
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

September 30, 2018
(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 $369. These non-capital losses expire between 2018 and 2038.

NOTE 5 LONG-TERM DEBT

	($ thousands) 2018	2017
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	14,103	14,028
Accrued interest	34,491	34,491
	$193,402	$193,327

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, 2018 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)	
	2018	**2017**
Share capital	$ 1	$ 1
Accumulated deficit	(204,754)	(204,675)
Net liabilities	$ (204,753)	$ (204,674)

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)	
	2018	**2017**
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	(6,000)
	$ 1	$ 1

NOTE 8 RELATED PARTY TRANSACTIONS

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta Consolidated Financial Statements. Related parties also include key management personnel in the department and their close family members.

There were $78 related party transactions in the year ended September 30, 2018 and $107 for the prior year ended September 30, 2017. Gainers Inc. has a long term debt balance payable to the Province of Alberta of $193,402.

NOTE 9 SUBSEQUENT EVENTS

In November 2018, a settlement of $800 was received by Gainers Properties Inc. from a third party regarding a land purchase option. The financial net impact on Gainers Inc. financial statements is a decrease to net debt of $799 ($800 less $1 in legal fees).

NOTE 10 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, LIQUOR AND CANNABIS COMMISSION

Financial Statements

March 31, 2019

Table of Contents

INDEPENDENT AUDITOR'S REPORT

Auditor General OF ALBERTA

To the Members of the Alberta Gaming, Liquor and Cannabis Commission

Report on the Financial Statements

Opinion
I have audited the financial statements of the Alberta Gaming, Liquor and Cannabis Commission (the Commission) which comprise the statement of financial position as at March 31, 2019, and the statements of net income, comprehensive income, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

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

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

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

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Commission to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

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

May 23, 2019
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of dollars)

	Note		2019		2018
ASSETS					
Current Assets					
Cash and cash equivalents	5	$	180,060	$	170,617
Trade and other receivables			33,706		34,153
Inventories and prepaid expenses	6		58,037		12,274
			271,803		217,044
Non-Current Assets					
Property and equipment	7		262,065		223,740
Intangible assets	8		59,876		44,316
Investment properties	9		147,341		127,755
Investment in Western Canada Lottery Corporation	2h & 16		33,491		35,457
			502,773		431,268
		$	774,576	$	648,312
LIABILITIES					
Current Liabilities					
Trade and other payables		$	205,406	$	189,999
Due to Alberta Lottery Fund	10		50,142		58,144
			255,548		248,143
Non-Current Liabilities					
Due to General Revenue Fund	11		476,087		360,526
Net defined benefit pension liability	2g & 12		63,907		49,115
			539,994		409,641
Accumulated Other Comprehensive Loss	12		(20,966)		(9,472)
		$	774,576	$	648,312

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

Approved by:

BOARD

[Original signed by]

Barbara Ritzen
Audit Committee Chair
Alberta Gaming, Liquor and Cannabis Commission

MANAGEMENT

[Original signed by]

Alain Maisonneuve
President and Chief Executive Officer
Alberta Gaming, Liquor and Cannabis Commission

STATEMENT OF NET INCOME

For the year ended March 31
(in thousands of dollars)

	Note	2019	2018 Restated (3b)
Cannabis revenue		$ 76,714	$ -
Cannabis cost of sales		(71,977)	-
Cannabis net revenue	13	4,737	-
Gaming net sales		1,735,993	1,736,064
Commissions and federal payments		(434,322)	(430,635)
Gaming net revenue	13	1,301,671	1,305,429
Liquor net revenue	13	886,891	891,483
Net Revenue		2,193,299	2,196,912
Operating expenses	14	(286,538)	(227,449)
Profit from Operations		1,906,761	1,969,463
Other revenue	15	24,678	14,596
Share of income from Western Canada Lottery Corporation	16	340,779	298,830
Net Income	2m & 13	2,272,218	2,282,889
Net income allocation to Alberta Lottery Fund	10	(1,445,657)	(1,416,872)
Net income allocation to General Revenue Fund	11	(826,561)	(866,017)
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	2019	2018
Net income	2m & 13	$ 2,272, 218	$ 2,282,889
Other Comprehensive (Loss) Income			
Net actuarial (loss) gain	12	(11,494)	16,088
Comprehensive Income		$ 2,260,724	$ 2,298,977

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)

	2019	2018
Cash Flows from Operating Activities		
Comprehensive income	$ 2,260,724	$ 2,298,977
Share of income from Western Canada Lottery Corporation	(340,779)	(298,830)
Amortization	67,072	61,836
Loss on disposal of non-current assets	1,991	1,565
Increase (decrease) in net defined benefit pension liability	14,792	(13,249)
Net change in non-cash working capital items:		
Decrease (increase) in trade and other receivables	447	(15,364)
Increase in inventories and prepaid expenses	(45,763)	(416)
Increase in trade and other payables	15,407	29,712
	1,973,891	2,064,231
Transfers to Alberta Lottery Fund	(1,453,659)	(1,417,773)
Transfers to General Revenue Fund	(711,000)	(828,000)
Net Cash Used In Operating Activities	(190,768)	(181,542)
Cash Flows from Investing Activities		
Purchase of property and equipment	(97,059)	(31,716)
Purchase of intangible assets	(24,313)	(23,790)
Additions to investment properties	(21,286)	(39,801)
Proceeds on disposal of non-current assets	124	34
Advances received from Western Canada Lottery Corporation	342,745	299,474
Net Cash Provided By Investing Activities	200,211	204,201
Net Increase in Cash and Cash Equivalents during the year	9,443	22,659
Cash and Cash Equivalents, beginning of year	170,617	147,958
Cash and Cash Equivalents, end of year	$ 180,060	$ 170,617
Supplemental Cash Flow Information:		
Interest received	$ 4,047	$ 1,857

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31
(in thousands of dollars)

1. Nature of Operations

The Alberta Gaming, Liquor and Cannabis Commission (AGLC) operates under the authority of the *Gaming, Liquor and Cannabis Act (the Act)*, Revised Statutes of Alberta 2000, Chapter G-1. Under the *Act* the AGLC was established as a provincial Crown corporation governed by the Board appointed by the Lieutenant General in Council.

The objectives of the AGLC are:

(a) to administer the *Act*;
(b) to conduct and manage provincial lotteries (gaming activities) for the Government of Alberta;
(c) to carry out functions respecting gaming delegated to it by the Lieutenant Governor in Council under to *Criminal Code;*
(d) to control, in accordance with the *Act,* the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor;
(e) to control, in accordance with the *Act,* the import, purchase, giving, possession, storage, transportation and use of cannabis;
(f) to generate revenue for the Government of Alberta.

The AGLC also administers the Alberta Lottery Fund which was established under the *Interprovincial Lottery Act*, RSA 1980 cl-8.

The registered office is located at 50 Corriveau Avenue, St. Albert, Alberta.

2. Significant Accounting Policies

a. Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board.

b. Basis of Presentation

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, the functional currency of the AGLC. All values are rounded to the nearest thousand dollars.

The financial statements for the year ended March 31, 2019 were authorized for issue by the Board on May 23, 2019.

c. Financial Instruments

Recognition and Measurement
Financial instruments are classified based on the business model for managing financial instruments and contractual cash flow characteristic of the financial instruments. They are recognized on 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 measured at fair value and are subsequently accounted for based on their classification. Transaction costs directly attributable to acquisition or issue of financial instruments (other than those at fair value through profit or loss) are added or subtracted from the fair value of the financial instrument. Transaction costs directly attributable to acquisition or issue of financial instruments at fair value through profit or loss are recognized immediately in profit or loss.

The AGLC's financial instruments are classified as following:

Cash and cash equivalents	Debt instrument at amortized cost
Trade and other receivables	Debt instrument at amortized cost
Trade and other payables	Other financial liabilities at amortized cost
Due to Alberta Lottery Fund	Other financial liabilities at amortized cost
Due to General Revenue Fund	Other financial liabilities at amortized cost

Derecognition

Financial assets are derecognized when the contractual cash flows from the asset expire or when the AGLC transfers the right to receive the contractual cash flows of the asset. Financial liabilities are derecognized when the contractual obligation under the liability is discharged, cancelled or it expires. Any differences in the carrying amounts of the financial instruments are recognized in the Statement of Net Income.

Impairment

Financial assets measured at amortized cost are assessed at each reporting date to determine where there is objective evidence of impairment. An expected credit loss impairment model is applied, where expected credit losses are the present value of all cash flows that the AGLC expects to receive over the expected life of the financial asset. The AGLC recognizes lifetime expected credit losses for trade and other receivables.

d. Inventories

Gaming parts and supplies and cannabis products held for sale are both measured at the lower of cost and net realizable value (NRV). The cost of inventories is determined on a weighted average basis and includes the purchase price, net of trade discounts received, plus other costs incurred in bringing the inventories to their present locations. Inventories are written down to their NRV when the cost of inventories is estimated not to be recoverable through sale or usage. Any write-down to NRV is recognized as expense in the period in which the write-down occurs.

Liquor inventories are held on behalf of liquor suppliers and/or agencies. As such, their value, as well as related duties and taxes, are not recorded in these financial statements.

e. Property, 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.

f. Investment Properties

Investment properties are comprised of land, buildings or a combination thereof, that are held by the AGLC to earn rental income. They include the liquor distribution and storage facilities located at 50 Corriveau Avenue and at 2 Boudreau Road in St. Albert, leased to Connect Logistics Services Inc.

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.

g. 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.

h. 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 and was continued under the *Canada Not-for-profit Corporations Act* on June 30, 2014. It is a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities for its members - the Governments of Alberta, Saskatchewan, and Manitoba. 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.

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. Revenue from Contracts with Customers

The AGLC's revenue is generated primarily from gaming activities (including revenue from casino gaming terminals, video lottery terminals and personal-play electronic bingo), as well as the selling of liquor and cannabis. Revenue is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the AGLC expects to be entitled in exchange for those goods or services. Under IFRS, the AGLC has concluded that it is the principal in its revenue arrangements for gaming activities and cannabis and an agent for liquor based on the control of goods or services before they are transferred to the customer.

The disclosures of significant accounting estimates, assumptions and critical judgements related to revenue from customers are provided in the respective financial statement note.

Gaming Revenue

Gaming revenue is comprised of one performance obligation which is honouring the outcome of the game played and making the appropriate payout. The AGLC recognizes revenue from the gaming activities based on the net win or loss immediately as it is determined and since no further performance obligations exist. Payment from the customer is required to initiate the game play.

Player Engagement Program

In November 2018 the AGLC launched Winner's Edge, a Player Engagement Program (PEP), which allows players to accumulate loyalty points for casino gaming terminal play that can be redeemed for free plays or additional ballots for designated promotional draws. PEP loyalty points give rise to a separate performance obligation, as they provide a material right to the player. A portion of the casino gaming terminal transaction price is allocated to the PEP loyalty points awarded to customers, based on relative stand-alone selling price, and recognized as a contract liability until the PEP loyalty points are redeemed. Revenue is recognized upon redemption of PEP loyalty points by the customer.

When estimating the stand-alone selling price of the PEP loyalty points, the AGLC considers the likelihood that the customer will redeem the loyalty points within the 12 month expiration period. The AGLC updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the liability balance are recognized against revenue.

Sale of Liquor

The AGLC purchases liquor products from liquor suppliers and registered agencies to warehouse and distribute based on a consignment model. Under IFRS, as liquor warehousing and distribution is managed by third party providers, the AGLC is acting as an agent in these arrangements, resulting in revenue being recorded on a net basis, recognized at the point in time when control for the goods is provided to the third party provider. Payment is required before the goods are transferred.

Sale of Cannabis

The AGLC purchases cannabis products from licensed producers and is responsible for warehousing and distribution of recreational cannabis products to licensed retailers and directly to Albertans through an online platform. The AGLC maintains direct control of cannabis products and thus is a principal in the arrangement and records revenue on a gross basis. Revenue from sale of cannabis is recognized at the point in time when control of the goods is transferred to the customer on delivery. Payment is required before the goods are transferred.

k. Federal and Provincial Taxes

As a Government of Alberta entity, the AGLC is exempt from paying Goods And Services Tax (GST) on purchases of taxable supplies and services related to liquor and cannabis operations.

As a Provincial Gaming Authority, the AGLC is a prescribed registrant under the *Games of Chance (GST/HST) Regulations* of the *Excise Tax Act (the Regulations)*. The AGLC is obligated to calculate and remit GST for gaming related operations pursuant to these Regulations.

l. Operating Expenses

Operating expenses are allocated against gaming, liquor, and cannabis revenue sectors based on the nature of the expenses.

m. Allocation of Net Income

The *Gaming, Liquor and Cannabis 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 10 discloses further information on amounts due to the Alberta Lottery Fund.

Net income from liquor and cannabis operations is transferred to the General Revenue Fund**.** Note 11 provides additional information regarding the amount due to the General Revenue Fund.

n. 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.

o. 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 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. Changes in Significant Accounting Policies

a. IFRS 9 - Financial Instruments (IFRS 9)

The AGLC adopted IFRS 9, issued to replace IAS 39 – Financial Instruments: Recognition and Measurement, retrospectively effective April 1, 2018 in accordance with its transitional provisions. The standard impacts entities differently, depending both on the types and complexity of financial instruments they are party to, and the objectives of the entity with respect to both its financial instruments and financial reporting. IFRS 9 introduces a new method of classification for financial assets, driven by the nature of the financial assets and their anticipated use, a new method for impairment, which requires both an expected loss provision and further detailed qualitative and quantitative disclosures, and a new model for hedge accounting.

On adoption the AGLC has classified the financial assets held at April 1, 2018 based on the new classification requirements and the characteristics of each financial instrument at the transition date. The adoption of IFRS 9 did not impact the Statement of Financial Position or net income.

The adoption of IFRS 9 did not impact the AGLC's financial liabilities, as the AGLC has not elected the option of designating any financial liabilities at fair value through profit or loss and does not have embedded derivatives.

Changes to the classification and measurement of financial instruments are as following:

	IAS 39		IFRS 9	
Financial assets				
Cash and cash equivalents	loans and receivables	amortized cost	debt instrument	amortized cost
Trade and other receivables	loans and receivables	amortized cost	debt instrument	amortized cost
Financial liabilities				
Trade and other payables	other financial liabilities	amortized cost	other financial liabilities	amortized cost
Due to Alberta Lottery Fund	other financial liabilities	amortized cost	other financial liabilities	amortized cost
Due to General Revenue Fund	other financial liabilities	amortized cost	other financial liabilities	amortized cost

In relation to impairment of financial assets, the AGLC recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the AGLC expects to receive, discounted at an approximation of the original effective interest rate.

For trade and other receivables, the AGLC applies a simplified approach in calculating ECLs as permissible within IFRS 9. Therefore, the AGLC does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

b. IFRS 15 - Revenue from Contracts with Customers (IFRS 15)

The AGLC adopted IFRS 15, replacing IAS 11 – Construction Contracts; IAS 18 – Revenue and several revenue related interpretations, effective April 1, 2018. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The AGLC adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period is not disclosed as the standard provides an optional practical expedient. The AGLC did not apply any of the other available optional practical expedients.

The nature and effect of the changes from adoption of IFRS 15 is described below.

Agent in Liquor Sales

The AGLC purchases liquor products from liquor suppliers and registered agencies to warehouse and distribute based on a consignment model. Before the adoption of IFRS 15, based on the existence of credit risk and the nature of the consideration, the AGLC accounted for the revenue as a principal. Upon the adoption of IFRS 15, the AGLC determined that as it does not control the goods before they are transferred to customers and the AGLC is now an agent in these arrangements. As an agent, the AGLC records revenue at the net amount. As a result of this change, there is no impact to the presentation of the Statement of Financial Position, however the cost of sales on the Statement of Net Income is presented against revenue to result in the net presentation for the year ended March 31, 2019. The table below summarizes the change in the presentation on the Statement of Net Income.

	2018 Original	2018 Restated
Liquor revenue	$ 2,577,823	$ -
Liquor cost of sales	(1,686,340)	-
Liquor net revenue	$ 891,483	$ 891,483

4. Significant Accounting Estimates, Assumptions and Critical Judgments

In conformity with IFRS, the preparation of the 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) on 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.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, current balances in banks and deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Government of Alberta, as well as funds under administration totalling $16,913 (2018 - $17,012).

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, 2019, securities held by the CCITF had a time-weighted yield of 1.8% per annum (March 31, 2018: 1.1% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

Funds under administration are comprised of proceeds from table games that the AGLC holds on behalf of charities. The AGLC manages the collection of these funds, as well as investment and distribution of the charities' share of proceeds/losses from table games at licensed charitable casino events.

The share of proceeds/losses from these table games allocated to charities is established in policy and by agreement between the participating charity and the relevant casino operator. These allocations are collected by 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.

6. Inventories and Prepaid Expenses

	2019	2018
Gaming inventories	$ 11,198	$ 10,777
Cannabis inventories	43,979	-
Total inventories	55,177	10,777
Prepaid expenses	2,860	1,497
	$ 58,037	$ 12,274

7. Property and Equipment

	2019					2018
	Land	Buildings and Leasehold Improvements	Equipment and Computer Hardware	Gaming Equipment and Terminals	Total	Total
Cost, beginning of year	$ 2,057	$ 40,116	$ 39,213	$ 475,121	$ 556,507	$ 559,593
Additions	-	2,080	10,526	84,453	97,059	31,716
Adjustments	-	-	-	-	-	(107)
Disposals	-	(185)	(1,418)	(24,394)	(25,997)	(34,695)
Cost, end of year	2,057	42,011	48,321	535,180	627,569	556,507
Accumulated amortization, beginning of year	-	(24,547)	(27,368)	(280,852)	(332,767)	(312,268)
Additions	-	(1,222)	(4,338)	(51,553)	(57,113)	(53,749)
Disposals	-	125	1,376	22,875	24,376	33,250
Accumulated amortization, end of year	-	(25,644)	(30,330)	(309,530)	(365,504)	(332,767)
Net book value, end of year	$ 2,057	$ 16,367	$ 17,991	$ 225,650	$ 262,065	$ 223,740

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 15 years
Gaming equipment and terminals	Up to 8 years

8. Intangible Assets

	2019 Computer Software	2019 Gaming Software	2019 Work in Progress	2019 Total	2018 Total
Cost, beginning of year	$ 32,372	$ 33,123	$ 27,842	$ 93,337	$ 71,862
Additions	20,838	3,355	120	24,313	23,790
Transfers	23,687	-	(23,687)	-	-
Disposals	(4,459)	(2,697)	-	(7,156)	(2,315)
Cost, end of year	72,438	33,781	4,275	110,494	93,337
Accumulated amortization, beginning of year	(21,846)	(27,175)	-	(49,021)	(43,756)
Additions	(4,878)	(3,381)	-	(8,259)	(7,426)
Disposals	3,965	2,697	-	6,662	2,161
Accumulated amortization, end of year	(22,759)	(27,859)	-	(50,618)	(49,021)
Net book value, end of year	$ 49,679	$ 5,922	$ 4,275	$ 59,876	$ 44,316

The estimated useful lives for each asset category are as follows:

Computer software	Up to 15 years
Gaming software	5 years

9. Investment Properties

	2019 Land	2019 Buildings	2019 Work in Progress	2019 Total	2018 Total
Cost, beginning of year	$ 21,126	$ 31,916	$ 100,146	$ 153,188	$ 113,284
Additions	-	20,585	701	21,286	39,801
Transfers	-	100,117	(100,117)	-	107
Disposals	-	-	-	-	(4)
Cost, end of year	21,126	152,618	730	174,474	153,188
Accumulated amortization, beginning of year	-	(25,433)	-	(25,433)	(24,776)
Additions	-	(1,700)	-	(1,700)	(660)
Disposals	-	-	-	-	3
Accumulated amortization, end of year	-	(27,133)	-	(27,133)	(25,433)
Net book value, end of year	$ 21,126	$ 125,485	$ 730	$ 147,341	$ 127,755

(a) The estimated useful life for the asset category is as follows:

Buildings	Up to 40 years

(b) Amortization of the liquor distribution centre at 2 Boudreau Road commenced in January 2019.

(c) Net Profit from Investment Properties

	2019	2018
Rental income derived from investment properties	$ 3,405	$ 3,149
Direct operating expenses (including repair and maintenance)	(1,190)	(1,131)
Net profit arising from investment properties	$ 2,215	$ 2,018

Estimated rental income for the current lease term expiring on January 31, 2020 is:

2020	$ 2,549

(d) Fair Value of Investment Properties

	2019	2018
Fair value of investment properties	$ 188,000	$ 167,146

Investment properties are recorded and reported at cost.

The fair value is based on a valuation performed by Bourgeois Brooke Chin Associates, an accredited independent valuator. Bourgeois Brooke Chin Associates has appropriate qualifications and recent experience in the valuation of similar properties.

The fair value valuation was performed on the liquor distribution and storage facilities at 50 Corriveau Avenue and at 2 Boudreau Road using income, cost and direct comparison approaches. Both properties are located in St. Albert, Alberta.

10. Due to Alberta Lottery Fund

The *Gaming, Liquor and Cannabis Act* requires the AGLC to transfer the net income from gaming activities 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	2019	2018
Due to Alberta Lottery Fund, beginning of year		$ 58,144	$ 59,045
Net income allocation to Alberta Lottery Fund	13	1,445,657	1,416,872
Transfers to Alberta Lottery Fund		(1,453,659)	(1,417,773)
Due to Alberta Lottery Fund, end of year		$ 50,142	$ 58,144

Amounts due to Alberta Lottery Fund are unsecured, non-interest bearing and have no specific terms of repayment.

11. Due to General Revenue Fund

The *Gaming, Liquor and Cannabis Act* requires the AGLC to transfer the net income from liquor and cannabis operations 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	2019	2018
Due to General Revenue Fund, beginning of year		$ 360,526	$ 322,509
Net income allocation to General Revenue Fund	13	826,561	866,017
Transfers to General Revenue Fund		(711,000)	(828,000)
Due to General Revenue Fund, end of year		$ 476,087	$ 360,526

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.

12. Employee Benefit Plans

Change in Net Defined Benefit Pension Liability

	2019				2018
	PSPP	MEPP	SRP	Total	Total
Change in Fair Value of Plan Assets					
Fair value of plan assets, beginning of year	$ 145,044	$ 57,720	$ 1,170	$ 203,934	$ 190,953
Employer contributions	7,893	2,023	48	9,964	9,790
Benefits paid	(9,461)	(2,613)	(64)	(12,138)	(11,000)
Interest income	4,905	1,952	42	6,899	6,805
Actuarial gain (loss) on plan assets	13,618	(4,120)	(237)	9,261	7,386
Fair value of plan assets, end of year	$ 161,999	$ 54,962	$ 959	$ 217,920	$ 203,934
Change in Defined Benefit Obligation					
Defined benefit obligation, beginning of year	$ 182,565	$ 68,738	$ 1,746	$ 253,049	$ 253,317
Current service cost	9,015	2,489	59	11,563	10,386
Benefits paid	(9,461)	(2,613)	(64)	(12,138)	(11,000)
Interest expense	6,200	2,335	63	8,598	9,048
Actuarial loss (gain) on plan liabilities	24,032	(3,010)	(267)	20,755	(8,702)
Defined benefit obligation, end of year	$ 212,351	$ 67,939	$ 1,537	$ 281,827	$ 253,049
Net Defined Benefit Pension Liability	$ (50,352)	$ (12,977)	$ (578)	$ (63,907)	$ (49,115)

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)

	2019				2018
	PSPP	MEPP	SRP	Total	Total
Actuarial (gain) loss on plan assets	$ (13,618)	$ 4,120	$ 237	$ (9,261)	$ (7,386)
Actuarial loss (gain) on plan liabilities	24,032	(3,010)	(267)	20,755	(8,702)
Net actuarial loss (gain)	10,414	1,110	(30)	11,494	(16,088)
AOCL, beginning of year	7,803	1,369	300	9,472	25,560
AOCL, end of year	$ 18,217	$ 2,479	$ 270	$ 20,966	$ 9,472

Pension Expense

	2019				2018
	PSPP	MEPP	SRP	Total	Total
Current service cost	$ 9,015	$ 2,489	$ 59	$ 11,563	$ 10,386
Interest expense	6,200	2,335	63	8,598	9,048
Interest income	(4,905)	(1,952)	(42)	(6,899)	(6,805)
Pension Expense	$ 10,310	$ 2,872	$ 80	$ 13,262	$ 12,629

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:

	2019			2018		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Discount rate:	3.30%	3.30%	3.40%	3.40%	3.40%	3.60%
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%
The AGLC's share of plan payroll:	2.34%	1.88%	0.78%	2.14%	1.98%	0.97%
Date of the most recent actuarial valuation:	Dec. 31,2017	Dec. 31,2017	Dec. 31,2016	Dec. 31,2016	Dec. 31,2015	Dec. 31,2016
The AGLC's expected contributions for the next period – all plans:		$ 12,138			$ 11,000	

Additional assumptions are described in the valuation reports for each of the respective plans.

	2019			2018		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Estimated sensitivity of liabilities to a 1% change in the discount rate:	13.70%	13.40%	18.80%	13.00%	12.80%	19.10%
Estimated sensitivity of liabilities to a 1% change in the inflation rate:	7.30%	7.00%	9.10%	7.30%	7.40%	8.90%

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.

13. Detailed Operating Results

Management monitors the operating results of the lines of business in order to make decisions about resource allocation and performance assessment.

	2019				2018
	Gaming (a)	**Liquor**	**Cannabis (b)**	**Total**	**Total**
Net Revenue	$ 1,301,671	$ 886,891	$ 4,737	$ 2,193,299	$ 2,196,912
Operating expenses	(201,711)	(41,855)	(42,972)	(286,538)	(227,449)
Profit from Operations	**1,099,960**	**845,036**	**(38,235)**	**1,906,761**	**1,969,463**
Other revenue	4,918	15,387	4,373	24,678	14,596
Share of income from WCLC	340,779	-	-	340,779	298,830
Net Income	$ 1,445,657	$ 860,423	$ (33,862)	$ 2,272,218	$ 2,282,889

(a) includes casino gaming terminals, video lottery terminals, electronic bingo and Keno charity commissions
(b) includes wholesale and eCommerce

Gaming activities can be further allocated as following:

	2019				2018
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo	Total	Total
Net Sales	$ 1,134,643	$ 589,552	$ 11,798	$ 1,735,993	$ 1,736,064
Commissions					
Operators/retailers	(170,198)	(88,433)	(1,770)	(260,401)	(257,318)
Charities	(159,090)	-	(1,811)	(160,901)	(156,769)
Federal tax expense (c)	(8,510)	(4,421)	(89)	(13,020)	(16,548)
Net Revenue	$ 796,845	$ 496,698	$ 8,128	$ 1,301,671	$ 1,305,429

(c) as prescribed by the *Games of Chance (GST/HST) Regulations* of the *Excise Tax Act* (Regulations) taxes are paid to the Government ofCanada 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.

14. Operating Expenses

	2019	2018
Salaries and benefits	$ 107,069	$ 94,068
Supplies and services		
Fees and services	26,893	5,802
Data processing	11,542	7,906
Equipment and vehicles	10,633	8,999
Marketing and retailer relations	8,529	3,359
Miscellaneous	8,188	870
Data communications	6,781	6,687
Property	5,779	4,060
Insurance and bank charges	2,713	2,094
Freight and ticket product delivery	2,412	2,495
Travel and training	2,279	2,141
Stationary and supplies	1,636	1,530
Liquor product expense	227	211
	87,612	46,154
Leased gaming equipment	23,086	23,148
Net interest in net defined benefit pension plan	1,699	2,243
Amortization	67,072	61,836
	$ 286,538	$ 227,449

15. Other Revenue

	2019	2018
Licences, fees and fines	$ 12,727	$ 8,857
Interest	4,047	1,857
Miscellaneous	3,819	80
Premises rental	3,405	3,149
Liquor levies	1,926	2,126
Chargebacks and recoveries	745	92
Loss on disposal of non-current assets	(1,991)	(1,565
	$ 24,678	$ 14,596

16. 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 revenues and expenses derived from the sale and 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.

	2019	2018
WCLC Statement of Financial Position		
Current assets	$ 78,719	$ 73,718
Property and equipment	23,667	25,275
Intangible assets	8,104	8,457
	$ 110,490	$ 107,450
Current liabilities	$ 111,908	$ 108,116
Employee benefits	10,942	10,446
Equity	(12,360)	(11,112)
	$ 110,490	$ 107,450
Alberta's Proportionate Share of Revenues and Expenses		
Lottery sales (a)	$ 946,227	$ 835,731
Direct expenses (a)	(560,813)	(493,331)
Gross income	385,414	342,400
Operating expenses	(32,990)	(31,932)
Interest and other income	2,719	2,571
Net income from operations	355,143	313,039
Federal tax expense (a)	(4,998)	(5,017)
Payment to the Federal Government (b)	(9,366)	(9,192)
Share of income from WCLC	$ 340,779	$ 298,830

(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

	2019	2018
Investment in WCLC, beginning of year	$ 35,457	$ 36,101
Share of income from WCLC	340,779	298,830
Advances received from WCLC	(342,745)	(299,474)
Investment in WCLC, end of year	$ 33,491	$ 35,457

17. 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:

	2019	2018
2019	$ -	$ 96,937
2020	96,262	45,029
2021	47,081	16,272
2022	34,948	6,861
2023	9,160	5,449
2024	3,355	-
Thereafter	509	1,272
	$ 191,315	$ 171,820

18. 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 May 15, 2018. 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, 2019, the AGLC's potential liability is $21.3 million (2018 - $9.1 million).

19. Salaries and Benefits

The following table discloses the amounts earned by the board and senior executives in the years ended March 31:

		2019				2018
	Note	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Chair of the Board		$ 113	$ -	$ 5	$ 118	$ 107
Members of the Board	e	279	-	18	297	219
President and Chief Executive Officer	f	261	7	62	330	311
Vice Presidents (VP)						
VP, Gaming and Cannabis and Chief Operating Officer		229	1	54	284	279
VP, Human Resources		197	6	49	252	230
VP, Regulatory Services		200	2	49	251	222
VP, Corporate Services and Chief Financial Officer		196	4	51	251	238
VP, Corporate Strategic Services and Chief Risk Officer		181	1	46	228	217
VP, Liquor Services		174	1	43	218	220
VP, Information Technology and Chief Information Officer		174	-	43	217	214
VP, Corporate Responsibility and Reputation	d	9	11	2	22	167

(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, honoraria 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) Position eliminated on April 16, 2018.

(e) At any given time the Board consisted of no more than 6 members plus the Chair, whose remuneration is disclosed separtely.

(f) Automobile benefit of $6 (2018 - $2) is included in other cash benefits.

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 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 $463 (2018 - $415) to Alberta Risk Management Fund. Transactions with the Alberta Lottery Fund are disclosed in Note 10 and transactions with the General Revenue Fund are disclosed in Note 11.

The Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 2h, is also a related party to the AGLC. Details of transactions with the WCLC are disclosed in Note 16. In addition to these transactions, the AGLC received $730 (2018 - $721) 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.

		2019
Cannabis sales	$	128,958
Cannabis cost of sales		(124,718)
Cannabis revenue		4,240
Gaming revenue		1,314,728
Liquor revenue		868,652
		2,187,620
Operating expenses		(300,102)
Profit from Operations		1,887,518
Other revenue		16,927
Share of income from WCLC		328,544
Net Income	$	2,232,989
Other Comprehensive Loss		
Net actuarial loss		(7,500)
Comprehensive Income	$	2,225,489

23. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

ATB FINANCIAL

Financial Statements

March 31, 2019

Table of Contents

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.

Independent Auditor's Report

Auditor General
OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of ATB Financial (the Group), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.
In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Other information

Management is responsible for the other information. The other information comprises the information included in the ATB Annual Report 2019, but does not include the consolidated financial statements and my auditor's report thereon.

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

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

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

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

May 30, 2019
Edmonton, Alberta

Consolidated Statement of Financial Position

As at *($ in thousands)*	Note	**March 31 2019**	March 31 2018
Cash	7	**$ 200,002**	$ 285,527
Interest-bearing deposits with financial institutions		**1,097,307**	1,110,848
Total cash resources		**1,297,309**	1,396,375
Securities measured at fair value through profit or loss		**68,502**	4,760,130
Securities measured at fair value through other comprehensive income		**3,911,796**	-
Securities purchased under reverse repurchase agreements		**400,355**	50,096
Total securities	8	**4,380,653**	4,810,226
Business		**23,833,674**	21,439,814
Residential mortgages		**16,438,739**	15,750,430
Personal		**6,667,543**	6,711,755
Credit card		**730,681**	718,065
		47,670,637	44,620,064
Allowance for loan losses	10	**(664,913)**	(509,024)
Total net loans	9	**47,005,724**	44,111,040
Derivative financial instruments	11	**642,070**	576,712
Property and equipment	12	**285,634**	333,092
Software and other intangibles	13	**302,865**	292,796
Other assets	14	**429,896**	372,850
Total other assets		**1,660,465**	1,575,450
Total assets		**$ 54,344,151**	$ 51,893,091
Redeemable fixed-date deposits		**2,047,475**	2,368,853
Non-redeemable fixed-date deposits		**9,176,459**	6,724,047
Saving accounts		**10,004,043**	9,525,181
Transaction accounts		**7,574,046**	7,751,748
Notice accounts		**7,119,926**	6,313,944
Total deposits	15	**35,921,949**	32,683,773
Securities sold under repurchase agreements		**-**	790,827
Wholesale borrowings	22	**3,619,066**	4,656,469
Collateralized borrowings	16	**8,965,829**	8,408,453
Derivative financial instruments	11	**507,146**	673,162
Other liabilities	17	**1,346,904**	1,070,052
Total other liabilities		**14,438,945**	15,598,963
Subordinated debentures	18	**339,140**	331,199
Total liabilities		**50,700,034**	48,613,935
Retained earnings		**3,652,955**	3,453,844
Non-controlling interest	28	**4,314**	3,508
Accumulated other comprehensive loss		**(13,152)**	(178,196)
Total equity		**3,644,117**	3,279,156
Total liabilities and equity		**$ 54,344,151**	$ 51,893,091

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

Approved by the board

Original signed by
Joan Hertz
Chair of the Board

Original signed by
Barry James
Chair of the Audit Committee

Consolidated Statement of Income

For the year ended March 31 *($ in thousands)*	Note	2019	2018
Loans		**$ 1,909,276**	$ 1,660,903
Securities		**93,568**	49,672
Interest-bearing deposits with financial institutions		**17,599**	8,282
Interest income		**2,020,443**	1,718,857
Deposits		**532,401**	369,572
Wholesale borrowings		**102,847**	72,626
Collateralized borrowings		**184,228**	144,808
Subordinated debentures		**9,167**	9,471
Interest expense		**828,643**	596,477
Net interest income		**1,191,800**	1,122,380
Wealth management		**204,479**	186,394
Service charges		**76,359**	70,741
Card fees		**66,495**	59,079
Credit fees		**45,086**	46,864
Insurance		**24,022**	22,712
Capital markets revenue		**20,256**	15,919
Foreign exchange		**5,684**	20,619
Net gains on derivative financial instruments		**35,559**	24,887
Net gains on securities		**7,990**	7,357
Sundry		**4,909**	5,963
Other income		**490,839**	460,535
Operating revenue		**1,682,639**	1,582,915
Provision for loan losses	10	**338,145**	105,006
Salaries and employee benefits	19, 20	**600,574**	583,820
Data processing		**118,166**	104,759
Premises and occupancy, including depreciation		**88,525**	91,482
Professional and consulting costs		**65,651**	72,627
Deposit guarantee fee	15	**47,674**	41,594
Equipment, including depreciation		**24,581**	26,114
Software and other intangibles amortization	13	**78,409**	70,068
General and administrative		**72,668**	70,705
ATB agencies		**13,178**	12,092
Other		**54,744**	48,438
Non-interest expenses		**1,164,170**	1,121,699
Net income before payment in lieu of tax		**180,324**	356,210
Payment in lieu of tax	21	**41,629**	81,651
Net income		**$ 138,695**	$ 274,559
Net income attributable to ATB Financial		**$ 138,942**	$ 273,187
Net (loss) income attributable to non-controlling interests	28	**$ (247)**	$ 1,372

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)*	**2019**	2018
Net income	**$ 138,695**	$ 274,559
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss:		
Unrealized net gains on securities measured at fair value through other comprehensive income (loss):		
Unrealized net gains arising during the period	**6,054**	-
Net gains reclassified to net income	**(7,871)**	-
Unrealized net gains on derivative financial instruments designated as cash flow hedges:		
Unrealized net gains arising during the period	**209,617**	(126,679)
Net gains reclassified to net income	**(29,673)**	(39,704)
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit plan liabilities	**(13,083)**	20,186
Other comprehensive income (loss)	**165,044**	(146,197)
Comprehensive income	**$ 303,739**	$ 128,362
Attributable to:		
ATB Financial	**$ 303,986**	$ 126,990
Non-controlling interests	**(247)**	1,372

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

Consolidated Statement of Change in Equity

For the year ended March 31 *($ in thousands)*	**2019**	2018
Retained earnings		
Balance at beginning of the year	**$ 3,453,844**	$ 3,179,285
Net income	**138,695**	274,559
Transition adjustment (Note 4)	**61,796**	-
Other	**(1,380)**	-
Balance at end of the year	**3,652,955**	3,453,844
Non-controlling interest		
Balance at beginning of the year	**3,508**	-
Balance at the date of acquisition	**-**	2,136
Net (loss) income attributable to non-controlling interests in subsidiaries	**(247)**	1,372
Other(1)	**1,053**	-
Balance at end of the year	**4,314**	3,508
Accumulated other comprehensive loss		
Securities measured at fair value through other comprehensive income		
Balance at beginning of the period	**-**	-
Other comprehensive loss	**(1,817)**	-
Balance at end of the year	**(1,817)**	-
Derivative financial instruments designated as cash flow hedges		
Balance at beginning of the year	**(126,362)**	40,021
Other comprehensive income (loss)	**179,944**	(166,383)
Balance at end of the year	**53,582**	(126,362)
Defined benefit plan liabilities		
Balance at beginning of the year	**(51,834)**	(72,020)
Other comprehensive (loss) income	**(13,083)**	20,186
Balance at end of the year	**(64,917)**	(51,834)
Accumulated other comprehensive loss	**(13,152)**	(178,196)
Equity	**$ 3,644,117**	$ 3,279,156

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

[1] Amount relates to the change in Class B shares during the period. Refer to note 27 for further details.

Consolidated Statement of Cash Flows

For the year ended March 31 *($ in thousands)*	**2019**	2018
Cash flows from operating activities:		
Net income	**$ 138,695**	$ 274,559
Adjustments for non-cash items and other items:		
Provision for loan losses	**338,145**	105,006
Depreciation and amortization	**137,700**	130,055
Net gains on securities	**(7,990)**	(7,357)
Adjustments for net changes in operating assets and liabilities:		
Loans	**(3,014,660)**	(3,324,362)
Deposits	**3,237,395**	(1,243,158)
Derivative financial instruments	**(58,249)**	41,822
Prepayments and other receivables	**(12,034)**	(14,570)
Due to clients, brokers, and dealers	**(8,635)**	(1,410)
Deposit guarantee fee payable	**4,296**	1,751
Accounts payable and accrued liabilities	**252,057**	(30,818)
Liability for payment in lieu of tax and income taxes	**(39,818)**	36,398
Net interest receivable and payable	**50,669**	(4,119)
Change in accrued pension-benefit liability	**14,116**	(26,241)
Others, net	**(211,857)**	(139,931)
Net cash provided by (used in) operating activities	**819,830**	(4,202,375)
Cash flows from investing activities:		
Change in securities measured at fair value profit or loss	**786,614**	217,404
Change in securities purchased under reverse repurchase agreements	**(350,259)**	400,565
Change in interest-bearing deposits with financial institutions	**13,541**	(463,300)
Purchases and disposals of property and equipment, software, and other intangibles	**(100,311)**	(118,578)
Net cash provided by investing activities	**349,585**	36,091
Cash flows from financing activities:		
Issuance of wholesale borrowings	**8,691,516**	9,223,827
Repayment of wholesale borrowings	**(9,721,160)**	(7,459,695)
Issuance of collateralized borrowings	**799,156**	1,595,794
Repayment of collateralized borrowings	**(241,780)**	-
Change in securities sold under repurchase agreements	**(790,827)**	790,827
Issuance of subordinated debentures	**81,277**	45,038
Repayment of subordinated debentures	**(73,122)**	(58,280)
Net cash (used in) provided by financing activities	**(1,254,940)**	4,137,511
Net decrease in cash	**(83,525)**	(28,773)
Cash at beginning of the year	**285,527**	314,300
Cash at end of the year	**202,002**	285,527
Net cash (used in) provided by operating activities includes:		
Interest paid	**$ (773,806)**	$ (589,814)
Interest received	**$ 2,016,239**	$ 1,708,076

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2019

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 Government of Alberta designed to be in lieu of such a charge. (Refer to notes 2 (q) and 21.)

2 Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions (ASFI). These consolidated financial statements were approved by the board of directors on May 30, 2019.

The consolidated financial statements have been prepared on a historical cost basis, except for securities measured at fair value through profit or loss or other comprehensive income, derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss, equity instruments designated at fair value through other comprehensive 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 controlled subsidiaries, created for offering advisory and institutional financial services, were incorporated under the *Business Corporations Act* (Alberta):

- AltaCorp Capital Inc. (AltaCorp), incorporated May 17, 2010
- AltaCorp Capital (USA) Inc., incorporated June 21, 2010
- AltaCorp Asset Management Inc., incorporated February 24, 2012

Significant Accounting Judgments, Estimates, and Assumptions

While applying ATB's accounting policies, management has exercised judgment and made estimates in determining amounts recognized in the consolidated financial statements. The most significant judgments and estimates include the allowance for loan losses, the fair value of financial instruments, income taxes and deferred taxes, the depreciation of premises and equipment, the amortization of software, 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, 2019, provide additional information in the following notes:

- 2(b): Impairment of financial assets – for establishing allowance for loan losses
- 2(b): Financial instruments – for establishing fair-value
- 2(n): Income taxes – for establishing AltaCorp's income taxes
- 8: Securities – for establishing fair value of investments made by AltaCorp and investments made by ATB to a broad range of private Alberta companies
- 12: Property and equipment – for establishing depreciation expense for premises and equipment
- 13: Software and other intangibles – for establishing the amortization expense for software
- 20: 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

On April 1, 2018, ATB adopted IFRS 9 *Financial Instruments*, which replaced the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. ATB elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The comparative figures were not restated at the date of transition, with any adjustments to the carrying amounts of financial assets and liabilities recognized in opening retained earnings on the consolidated statement of financial position in the current period. Therefore, the comparative information is not comparable to the information presented for the current period.

Adopting IFRS 9 has resulted in changes to accounting policies for the recognition, classification, and measurement of financial assets and liabilities, as well as the impairment of financial assets. The quantitative impact of applying IFRS 9 as at April 1, 2018, is described in note 4, with the significant accounting policy changes described below:

Accounting Policies Applicable Beginning April 1, 2018 (IFRS 9)

Classification and Measurement of Financial Assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets—fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity, and amortized cost—have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition
- Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in other comprehensive income (OCI) with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. ATB's accounting policies for embedded derivatives are set out in note 3.

ATB's classification of its financial assets and liabilities is explained in note 2(c). The quantitative impact of applying IFRS 9 as at April 1, 2018, is disclosed in note 4.

Business Model Assessment

ATB determines its business model at a level that best reflects how the financial assets are managed. Judgement is used in determining ATB's business model, which is supported by observable relevant factors such as:

- How the asset and performance are evaluated and reported to key management personnel
- The risks that affect the asset's performance and how they are managed
- The expected frequency, value, and timing of sales

ATB's business models fall into three categories, which are indicative of the key strategies used:

- Hold-to-collect (HTC): Financial asset held to collect the contractual principal and interest cash flows. Sales may occur, but are incidental and expected to be insignificant or infrequent.
- Hold-to-collect and sell (HTC&S): Both collecting contractual cash flows and sales are integral to achieving this business model's objective.
- Other fair-value business models are neither HTC nor HTC&S, and they represent business objectives where assets are managed on a fair-value basis.

The following table presents the business model for ATB's financial assets:

Financial asset	Business model
Cash	HTC
Interest-bearing deposits with financial institutions	Other fair-value business models
Securities measured at FVTPL	Other fair-value business models
Securities measured at FVOCI	HTC&S
Securities purchased under reverse repurchase agreements	HTC
Loans	HTC
Derivatives	Other fair-value business models
Other assets	HTC

The Solely Payments of Principal and Interest (SPPI) Test

ATB assesses the contractual terms of the financial asset to determine if the contractual cash flows represent a basic lending agreement, where the cash flows are only principal and interest. Principal is defined as the fair value of the asset at initial recognition and may change over the asset's life. Interest payments can include consideration for the time value of money as well as credit and liquidity risks.

The contractual terms of a financial asset may also include contractual cash flows that are not related to a basic lending agreement but still meet the SPPI test, provided they are extremely rare or immaterial. If they are not, the asset is required to be measured at FVTPL.

Financial Assets Measured at Amortized Cost

Financial assets are measured at amortized cost if they are held within an HTC business model and their contractual cash flows pass the SPPI test. The assets are initially recognized at fair value—which is the cash consideration to originate or purchase the asset, including any transaction costs and upfront fees—and subsequently measured at amortized cost using the effective interest rate (EIR) method. Financial assets measured at amortized cost are reported in the consolidated statement of financial position as loans or securities purchased under reverse repurchase agreements. Interest is included in the consolidated statement of income as part of net interest income. For loans, expected credit losses are reported as a deduction in the loan's carrying value and are recognized in the consolidated statement of income as a provision for loan losses.

Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets with an HTC&S business model where contractual cash flows meet the SPPI test are measured at FVOCI. Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign-exchange gains and losses are included in the consolidated statement of income in net interest income and foreign-exchange revenue, respectively.

Financial Assets at Fair Value Through Profit or Loss

Financial assets in this category are those not held for trading and either designated by management upon initial recognition or mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition. Such designation is determined on an instrument-by-instrument basis when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis.

Financial assets at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned from instruments designated at FVTPL is accrued in interest income using the EIR, taking into account any discount/premium and qualifying transaction costs as being an integral part of the instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Equity Instruments

Upon initial recognition, ATB occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined instrument by instrument.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in the consolidated statement of income as other income when the right of the payment has been established, except when ATB benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

If the instrument is measured at FVTPL, fair-value changes are recorded as part of other income in the consolidated statement of income.

Classification of Financial Liabilities

Financial liabilities are classified and measured either at FVTPL or amortized cost.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities in this category are those not held for trading and either designated by management upon initial recognition or mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met; such designation is determined instrument by instrument.

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis or
- The liabilities are part of a group of financial liabilities managed and their performance evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy

Financial liabilities at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in the profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in ATB's own credit risk. Such changes in fair value are recorded in the credit reserve through OCI and do not get recycled to the profit or loss. Interest incurred on instruments designated at FVTPL is accrued in interest expense using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of the instrument. As at March 31, 2019, ATB held certain deposits classified at FVTPL.

Financial Liabilities Measured at Amortized Cost

Financial liabilities not classified as FVTPL are measured at amortized cost and reported on the consolidated statement of financial position. They include deposits, wholesale borrowings, subordinated debentures, collateralized borrowings, and other liabilities. Interest expense is recognized using the effective interest method and included in the consolidated statement of income as part of net interest expense.

Reclassification of Financial Assets and Liabilities

ATB has not reclassified any of its financial assets and would only do so if a significant change, such as acquiring, disposing, and or terminating an area of expertise in the asset's business model occurred subsequent to initial recognition. Financial liabilities are never reclassified.

Impairment of Financial Assets

Adopting IFRS 9 has changed ATB's loan loss impairment method and replaced IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach, which will result in the loan loss allowance being different to IAS 39. ATB records an allowance for loan losses for all loans and financial assets not held at FVTPL, which includes loan commitments and financial guarantee contracts. Equity investments are not subject to impairment under IFRS 9.

For financial assets measured at FVOCI, the calculated ECL does not reduce the carrying amount in the consolidated statement of financial position, which remains at fair value. Instead, the allowance is recognized in OCI as an accumulated impairment amount with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit and loss when the asset is derecognized.

For loans carried at amortized cost, impairment losses are recognized at each reporting date as an allowance for loan loss on the consolidated statement of financial position and a provision for loan loss on the consolidated statement of income. Losses are based on a three-stage impairment model outlined below.

ATB assesses at each reporting date whether an asset has experienced a significant increase in credit risk since initial recognition. Assets are grouped into Stage 1, Stage 2, or Stage 3, as explained as follows:

- Stage 1: When the asset is recognized, an allowance is recorded based on the 12-month ECL, which represents a portion of the lifetime ECL that is possible within 12 months of the reporting date. Assets will remain in stage 1 until it has shown a significant increase in credit risk since origination. Stage 1 also includes assets previously classified as Stage 2 if the credit risk has improved.
- Stage 2: When an asset has shown a significant increase in credit risk since origination, an allowance is recognized for the lifetime ECL. Stage 2 also includes assets previously classified as Stage 3 if the credit risk has improved.
- Stage 3: Assets are considered credit impaired, with an allowance recognized for the lifetime ECL. Interest for assets in this stage will be calculated based on the net loan balance.

Assessing for significant increases in credit risk is performed quarterly based on the following three factors. Should any of these factors indicate a significant increase in credit risk, the loan is moved from Stage 1 to 2:

- Thresholds established are based on both a percentage and absolute change in lifetime PDs relative to initial recognition.
- Loans 30 days past due are typically considered to have experienced a significant increase in credit risk.
- All non-retail loans that are BRR 10–13 are assessed as high risk, as described in note 9.

Both the lifetime and 12-month ECLs are calculated either individually or collectively. If the credit quality improves in subsequent periods and results in a significant increase in credit risk no longer existing, the ECL is measured at the 12-month ECL.

Measurement of Expected Credit Losses

ATB's ECL calculations use a complex model that is reviewed and updated when necessary. The methods for each stage are summarized as follows:

- Stage 1: Estimates an asset's projected probability of default (PD), exposure at default (EAD), and loss given default (LGD) over a maximum of 12 months following the report date and is discounted by the asset's EIR.
- Stage 2: Estimates an asset's projected PD, EAD, and LGD over the remaining lifetime of the original asset and is discounted by the asset's original EIR.
- Stage 3: For credit-impaired assets, ATB recognizes the cumulative changes in lifetime ECLs since initial recognition. The calculation is similar to Stage 2 assets, with the PD set at 100%.

Forward-Looking Information

To measure the expected cash shortfalls, the model is based on three probability-weighted scenarios (pessimistic, baseline, and optimistic) designed to capture a wide range of possible outcomes associated with different PDs, EADs, and LGDs, and probability of occurrence. The probability and scenarios are adjusted quarterly based on forecasted future economic conditions. The scenarios are subject to review and challenged by the established economic outlook committee comprised of members from the economics, risk management, treasury, finance, capital, foreign-exchange, and energy areas.

In the model, ATB relies on a broad range of forward-looking economic information. The inputs used vary based on the asset and include:

- Unemployment rate
- Housing starts
- Interest rate
- Oil prices
- Foreign-exchange rate

As the inputs used may not capture all factors at the date of the financial statements, qualitative adjustments may be applied when these differences are considered significantly material.

Expected Life

For loans in Stages 2 and 3, allowances are based on the ECL over the loan's expected remaining lifetime. For most loans, the life is based on the remaining contractual life.

Exceptions can apply if the loan:

- Includes both a loan and an undrawn commitment component
- The contractual ability to demand repayment and cancel the undrawn commitment and
- Credit loss exposure exceeds the contractual notice period

Loans with these characteristics are exposed to credit losses exceeding the remaining contractual life and are not mitigated by ATB's normal credit risk management practices. The estimated period is based on significant judgment using historical information for similar exposures and normal credit risk management actions that vary by product. The products in scope include credit cards and certain revolving lines of credit.

Significant Increase in Credit Risk

Stage 1 and Stage 2 movement relies on significant judgment to assess whether a loan's credit risk has significantly increased relative to the date the loan was initially recognized. For this assessment, an increase in credit risk is based on a loan's lifetime PD, segregated by product or segment, and is done at the instrument level.

Movement from Stage 2 back to Stage 1 is symmetrical to moving from Stage 1 to Stage 2. As a result, if a loan is no longer considered to have a significant increase in credit risk relative to its initial recognition, the loan will move back to Stage 1.

Financial assets with low credit risk are considered ones with a low risk of default, as the borrower is still able to fulfil their contractual obligations, including in stress scenarios. For these assets, ATB has assumed the credit risk has not increased significantly since initial recognition. Securities measured at fair value through other comprehensive income, securities purchased under reverse repurchase agreements, and certain financial assets have been identified as having low credit risk.

Definition of Default

Loans are assessed at each reporting date to determine if one or more loss events have occurred. ATB's definition of default is consistent with our internal credit risk management practices and varies across products. ATB's loans are considered impaired when they are more than 90 days past due. Impairment may also occur earlier if there is objective evidence of a negative impact on the loan's estimated future cash flows.

Write-Offs

ATB's policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when ATB has stopped pursuing the recovery. If the amount written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance and then applied against the gross carrying amount. Any subsequent recoveries are credited to the consolidated statement of income.

Modifications and Derecognitions

A modification occurs when any one of a financial asset's original terms, payment schedule, interest rate, and limit are renegotiated or modified, which results in a change to the loan's contractual cash flows.

A modification gain or loss is calculated by taking the net present value of the new contractual cash flows, discounted at the original EIR less the current carrying value. The asset will continue to be subject to the same assessments for significant increase in credit risk and stage migration prior to being modified.

When an asset is derecognized and recognized, the new loan will be recorded in Stage 1 unless the loan was credit impaired when renegotiated. When assessing for significant increases in credit risk, the date of initial recognition is based on the date the loan was modified.

Derivatives

Hybrid instruments are contracts that contain an embedded derivative. If the contract is a financial asset in scope of the standard, IFRS 9's classification and measurement criteria is applied to the entire hybrid instrument. If the contract is either a financial liability or an asset not in scope of IFRS 9, the embedded derivative is separately recognized if the embedded derivative is not closely related to the contract, unless the fair-value option has been elected. The contract is then accounted for in accordance with its relevant accounting standard.

Accounting Policies Applicable before April 1, 2018 (IAS 39)

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 profit or loss, 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 profit or loss 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.

Financial Assets

Financial Assets at Fair Value through Profit or Loss

This category comprises two subcategories: financial assets held for trading and financial assets designated by ATB at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. 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 derivatives.

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 securities. 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 profit or loss (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. Fair-value changes relating to financial assets designated at fair value through profit or loss are recognized in net gains on securities.

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 profit or loss 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 those intended to be held for an indefinite period of time and sellable in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices or not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss.

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 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. As at March 31, 2018, ATB held no instruments in this category.

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. As at March 31, 2018, ATB held no instruments in this category.

Financial Liabilities

Financial Liabilities at Fair Value through Profit or Loss

This category comprises two subcategories: financial liabilities held for trading and financial liabilities designated by ATB as fair value through profit or loss 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 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 derivatives.

Financial liabilities classified as fair value through profit or loss 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 profit or loss 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 profit or loss are included in the consolidated statement of income and reported as net gains on securities. Interest expenses on financial liabilities held for trading are included in net interest income. As at March 31, 2018, ATB held certain wholesale borrowings designated as fair value through profit or loss.

Other Liabilities Measured at Amortized Cost

Financial liabilities not classified as fair value through profit or loss 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.

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 due to 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 ATB uses to determine whether 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.

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 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 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.

Policies under both IFRS 9 and IAS 39

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. 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 for 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.

Derecognition of Financial Assets and Liabilities

ATB derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred. For funding transactions, all financial assets that cannot be derecognized continue to be held on ATB's consolidated statement of financial position, and a secured liability is recognized for the proceeds received. ATB derecognizes a financial liability when its contractual obligations are discharged or cancelled or they expire.

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.

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-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 at FVTPL and measured at fair value in the consolidated statement of financial position. Derivatives with positive fair value are presented as derivative assets, and those with negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are recorded 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 ongoing. 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 and cross-currency derivatives to manage risk relating to the variability of cash flows from certain loans, deposits, and securities. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in OCI and the ineffective portion in 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. ATB uses cross-currency derivatives to manage our exposure to fair-value changes of certain fixed-interest-rate deposits caused by interest and foreign-exchange-rate changes. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair-value hedges of interest rate risk, the fair-value adjustment to the hedged item is amortized to the consolidated statement of income over the period to maturity of the previously designated hedge relationship using the 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.

Financial Guarantees

Liabilities under financial guarantee contracts are initially recorded at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligation.

Interest Income and Expenses

Interest income and expenses for all interest-bearing financial instruments are recognized in the consolidated statement of income using the 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.

c. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are depreciated on a straight-line basis over their estimated useful lives, consistent with the expected economic benefits obtained from the asset. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets considering expected usage 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 one renewal period for branch properties; lease term for corporate properties, if applicable

Depreciation rates, calculation methods, and the residual values underlying the calculation of depreciation of items of property and equipment are 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.

d. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and amortized on a straight-line basis over their estimated useful lives, consistent with the expected economic benefits obtained from the asset. 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.

e. 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.

f. 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 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.

g. Salaries and 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 valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Details of ATB's key management personnel included in note 19 are presented in the Executive Compensation discussion and analysis of the 2019 consolidated financial statements.

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 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 20.)

h. Provisions

Provisions are recognized when an outflow of economic benefits will probably 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 an outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

i. 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, mortgage loans, and credit card receivables are not derecognized and remain in the consolidated statement of financial position and are carried at amortized cost. The risks associated with residential mortgage loans and credit card receivables 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.

j. Segmented Information

An area of expertise is a distinguishable component of ATB that is engaged in providing products or services and 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 at arm's length, 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.

k. Revenue Recognition

On April 1, 2018, ATB adopted IFRS 15 *Revenue from Contracts with Customers*, which replaced the guidance in IAS 18 *Revenue* that applies to all contracts with customers except for revenue associated with financial instruments and leases. Revenue is recognized and judgmentally based on a five-step model, either at a point in time or deferred and recognized over time, based on when control over the goods or services are transferred to the customer. The comparative figures were not restated at the date of transition, with any changes to how revenue is recognized recorded to opening retained earnings on the consolidated statement of financial position in the current period. Therefore, the comparative information is not comparable to the information presented for the current period.

Adopting IFRS 15 did not result in material changes to ATB's revenue recognition accounting policies. (Refer to note 29 for additional information.)

Accounting Policies Applicable Beginning April 1, 2018 (IFRS 15)

Fee and commission income is recognized as the services are provided by ATB and control has passed to the customer. Revenue is either recognized upfront upon completion of the service or deferred and recognized over the period the services are being performed based on the five-step model. (Refer to note 29 for more detailed information.)

Fees and Commission Income

Investment Management

Investment management income includes revenue earned from trailer fees and mutual fund commissions, fund management, financial planning servicing, and account servicing fees. With the exception of certain one-time account fees and commissions that are recognized upfront when the services are complete, revenues are deferred and recognized over time for management and advisory services provided evenly throughout the month, provided that is highly probable that a significant reversal of revenue will not occur.

Most commission revenue for insurance services is recognized immediately, with a portion deferred and recorded as a contract liability on the consolidated statement of financial position. The liability is then recognized as revenue in future years as performance obligations are fulfilled by managing policy-holder relationships.

Service Charges

Service charges generate revenue from servicing a customer deposit. Transaction-based fees are recognized upfront, when the transaction occurs or the service is completed.

Card Fees

Revenue is generated from issuing Mastercards, merchant credit card terminals and associated services, and interchange fees. All three fees are recognized upfront when the transaction has taken place, except for certain recurring merchant fees that are recognized over time. Mastercard reward program expenses are recorded as a reduction to card fee revenue, as the program is managed by a third party with ATB acting as an agent.

Credit Fees

Fees are earned on various services provided related to a client's loan, letters of credits and guarantees, syndication, and standby fees. When a fee is charged for a one-time service, revenue is recorded immediately. If the fee relates to an ongoing service, revenue is recorded over time. Fees associated with letters of credit and guarantees are deferred and recorded to revenue monthly over the term of the letter.

Insurance

This refers to revenue generated from insurance plans offered with loans. There are two fees, variable fees based on the plan's surplus, which are deferred and recognized over the loan, and commission earned from each successful referral made to SunLife by ATB, recognized upfront when the transaction has taken place.

Capital Markets Revenue

These fees are earned and recognized up front when AltaCorp, an agent/underwriter in distributing the securities of issuers, completes the underwriting service.

Sundry

These fees include revenue generated from mergers and acquisitions (M&A) and Project Finance advisory services. M&A fees are deferred and recognized over the period of the engagement as the services are provided, and the remaining fees are recognized upfront, when the transactions and services provided are completed or certain milestones have been achieved.

Contract Assets and Liabilities

A contract asset is defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time (for example, the entity's future performance). This is similar to the concept of unbilled receivables.

A contract liability is defined as an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. This is similar to the concept of unearned revenue. (Refer to note 29 for more information.)

ATB has no material contract assets or liabilities as at March 31, 2019.

Remaining Performance Obligations

Remaining performance obligations are defined as unsatisfied or partially satisfied performance obligations that an entity has promised to transfer to a customer, as stated in the contract.

ATB has no material remaining performance obligations longer than one year.

Accounting Policies Applicable Before April 1, 2018 (IAS 18)

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.

l. Income Taxes

Income tax expense consists of current and deferred taxes related to the operations of AltaCorp 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 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.

m. 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.

n. 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 transaction by transaction.

3 Summary of Accounting Policy Changes

Changes in Accounting Policies and Disclosures

IFRS 9 *Financial Instruments*

On April 1, 2018, ATB adopted IFRS 9 *Financial Instruments*, which replaced the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. ATB has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The comparative figures were not restated at the date of transition, with any adjustments to the carrying amounts of financial assets and liabilities recognized in opening retained earnings on the consolidated statement of financial position in the current period. Therefore, the comparative information is not comparable to the information presented for the current period.

IFRS 15 *Revenue from Contracts With Customers*

Effective April 1, 2018, ATB applied IFRS 15 *Revenue from Contracts with Customers*, which replaced the guidance in IAS 18 *Revenue.* IFRS 15 establishes a single and comprehensive five-step framework for revenue recognition to be applied to contracts with customers except for revenue arising from financial instruments and leases.

ATB applied IFRS 15 on a modified retrospective basis, recognizing any transition adjustments to opening retained earnings without restating comparative periods. Most of ATB's revenue was not impacted by the adoption of IFRS 15.

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 implemented the interpretation with no impact on our financial performance.

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 under IFRS 9.

ATB implemented the annual improvement with no impact on our financial performance.

Future Accounting Policy Changes

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.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, and for ATB will be effective starting April 1, 2019, which is ATB's 2020 fiscal year. Earlier application is permitted if IFRS 15 *Revenue From Contracts With Customers* has also been applied. ATB has chosen to not adopt the standard early when implementing IFRS 15.

ATB assessed the impact of adopting the standard and concluded that all operating leases will be classified as finance leases and included on the consolidated statement of financial position. Subleases will also be classified as finance leases, based on the head-lease agreement. In addition, the renewal term has changed for leased corporate and branch spaces.

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 assessed the impact of adopting the interpretation, which will be effective for annual periods beginning on or after January 1, 2019, and determined there is no impact to our financial performance. The amendments to IAS 23 will be in effect starting April 1, 2019, which is ATB's 2020 fiscal year.

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 assessed 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, and determined there is no impact to our financial performance. Early adoption is permitted but must be disclosed. The amendments to IAS 19 will be in effect starting April 1, 2019, which is ATB's 2020 fiscal year. ATB has chosen to not adopt the amendment early.

IFRS 3 *Business Combinations*

In October 2018, the IASB issued *Definition of a Business (Amendments to IFRS 3)*. The amendment clarifies the definition of a business and additional factors to consider when determining if the entity has acquired a business or a group of assets.

ATB is currently assessing the impact of the new amendment, which is applicable for acquisitions that occur on or after the first period beginning on or after January 1, 2020. The amendments to IFRS 3 will be in effect starting April 1, 2020, which is ATB's 2021 fiscal year.

Definition of Material (Amendments to IAS 1 *Presentation of Financial Statements* and 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

In October 2018, the IASB issued *Definition of Material (Amendments to IAS 1 and IAS 8),* amending the definition of material in IAS 1 and IAS 8, replacing past definitions which should be used when applying the two standards. The new definition considers information as material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial statements make based on a specific reporting entity's financial statements.

ATB is currently assessing the impact of the new definition, which is effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The amendments to IAS 1 and 8 will be in effect starting April 1, 2020, which is ATB's 2021 fiscal year.

4 IFRS 9 and 15 Transition

($ in thousands)	IAS 39 measurement category	As at March 31, 2018 Carrying amount	IFRS 9 reclassification	IFRS 9 remeasurement	IFRS 15	As at April 1, 2018 Carrying amount	IFRS 9 measurement category
Cash resources							
Cash	Amortized cost	$ 285,527	$ -	$ -	$ -	$ 285,527	Amortized cost
Interest-bearing deposits with financial institutions	FVTPL	1,110,848	-	-	-	1,110,848	FVTPL
Total cash resources		1,396,375	-	-	-	1,396,375	
Securities measured at fair value through profit or loss	FVTPL	4,760,130	(4,688,297)	-	-	71,833	FVTPL
Securities measured at fair value through other comprehensive income	FVOCI	-	4,688,297	-	-	4,688,297	FVOCI
Securities purchased under reverse repurchase agreements	Amortized cost	50,096	-	-	-	50,096	Amortized cost
Total securities		4,810,226	-	-	-	4,810,226	
Business	Amortized cost	21,439,814	-	-	-	21,439,814	Amortized cost
Residential mortgages	Amortized cost	15,750,430	-	-	-	15,750,430	Amortized cost
Personal	Amortized cost	6,711,755	-	-	-	6,711,755	Amortized cost
Credit card	Amortized cost	718,065	-	-	-	718,065	Amortized cost
		44,620,064	-	-	-	44,620,064	
Allowance for loan losses	Amortized cost	(509,024)	-	62,394	-	(446,630)	Amortized cost
Total net loans		44,111,040	-	62,394	-	44,173,434	
Derivative financial instruments	FVTPL	576,712	-	-	-	576,712	FVTPL
Other financial assets	Amortized cost	178,405	-	-	-	178,405	Amortized cost
Non-financial assets		820,333	-	-	-	820,333	
Total other assets		1,575,450	-	-	-	1,575,450	
Total assets		$ 51,893,091	$ -	$ 62,394	$ -	$ 51,955,485	
Redeemable fixed-date deposits	Amortized cost	$ 2,368,853	$ -	$ -	$ -	$ 2,368,853	Amortized cost
Non-redeemable fixed-date deposits	Amortized cost	6,724,047	-	-	-	6,724,047	Amortized cost
Saving accounts	Amortized cost	9,525,181	-	-	-	9,525,181	Amortized cost
Transaction accounts	Amortized cost	7,751,748	-	-	-	7,751,748	Amortized cost
Notice accounts	Amortized cost	6,313,944	-	-	-	6,313,944	Amortized cost
Total deposits		32,683,773	-	-	-	32,683,773	
Securities sold under repurchase agreements	Amortized cost	790,827	-	-	-	790,827	Amortized cost
Wholesale borrowings	Amortized cost	4,141,489	-	-	-	4,141,489	Amortized cost
Wholesale borrowings	FVTPL	514,980	-	-	-	514,980	FVTPL
Collateralized borrowings	Amortized cost	8,408,453	-	-	-	8,408,453	Amortized cost
Derivative financial instruments	Amortized cost	673,162	-	-	-	673,162	Amortized cost
Other financial liabilities	Amortized cost	986,370	-	-	-	986,370	Amortized cost

Non-financial liabilities		83,682	-	-	598	84,280	
Total other liabilities		15,598,963	-	-	598	15,599,561	
Subordinated debentures	Amortized cost	331,199	-	-	-	331,199	Amortized cost
Total liabilities		48,613,935	-	-	598	48,614,533	
Retained earnings		3,453,844	-	62,394	(598)	3,515,640	
Non-controlling interest		3,508	-	-	-	3,508	
Accumulated other comprehensive loss		(178,196)	-	-	-	(178,196)	
Total equity		3,279,156	-	62,394	(598)	3,340,952	
Total liabilities and equity		$ 51,893,091	$ -	$ 62,394	$ -	$ 51,955,485	

	IAS 39 closing balances as at March 31, 2018			IFRS 9 opening balances as at April 1, 2018				
Allowance for loan losses	Collective	Specific	Total	Remeasurement	Stage 1	Stage 2	Stage 3	Total
Business	$ 130,107	$ 278,927	$ 409,034	$ (66,668)	$ 27,702	$ 50,214	$ 264,450	$ 342,366
Residential mortgages	10,129	5,732	15,861	(10,455)	2,110	1,313	1,983	5,406
Personal	37,589	22,655	60,244	(1,043)	27,676	11,152	20,373	59,201
Credit card	23,885	-	23,885	15,772	13,151	26,506	-	39,657
Total allowance for loan losses	$ 201,710	$ 307,314	$ 509,024	$ (62,394)	$ 70,639	$ 89,185	$ 286,806	$ 446,630

5 Financial Instruments

Classification and Carrying Value

The following tables summarize ATB's financial instrument classifications and provide their carrying value.

As at March 31, 2019 ($ in thousands)	Carrying value: Financial instruments classified as at FVTPL	Financial instruments designated as at FVTPL	Financial instruments classified as at FVOCI	Financial instruments designated as at FVOCI	Financial instruments measured at amortized cost	Total carrying value
Financial assets						
Cash	$ -	$ -	$ -	$ -	$ 200,002	$ 200,002 [(1)]
Interest-bearing deposits with financial institutions	-	1,097,307	-	-	-	1,097,307 [(1)]
Securities measured at FVTPL	53,502	15,000	-	-	-	68,502
Securities measured at FVOCI	-	-	3,910,168	1,628	-	3,911,796
Securities purchased under reverse repurchase agreements	-	-	-	-	400,355	400,355
Total securities	53,502	15,000	3,910,168	1,628	400,355	4,380,653 [(1)]
Business	-	-	-	-	23,833,674	23,833,674
Residential mortgages	-	-	-	-	16,438,739	16,438,739
Personal	-	-	-	-	6,667,543	6,667,543
Credit card	-	-	-	-	730,681	730,681
Allowance for loan losses	-	-	-	-	(664,913)	(664,913)
Total loans	-	-	-	-	47,005,724	47,005,724 [(2)]
Derivative financial instruments	642,070	-	-	-	-	642,070
Other assets	-	-	-	-	223,418	223,418
Total other assets	642,070	-	-	-	223,418	865,488 [(1)]
Financial liabilities						
Redeemable fixed-date deposits	$ -	$ -	$ -	$ -	$ 2,047,475	$ 2,047,475
Non-redeemable fixed-date deposits	-	-	-	-	9,176,459	9,176,459
Saving accounts	-	-	-	-	10,004,043	10,004,043
Transaction accounts	-	-	-	-	7,574,046	7,574,046
Notice accounts	-	-	-	-	7,119,926	7,119,926
Total deposits	-	-	-	-	35,921,949	35,921,949 [(3)]
Securities sold under repurchase agreements	-	-	-	-	-	- [(1)]
Wholesale borrowings	-	279,908	-	-	3,339,158	3,619,066 [(4)]
Collateralized borrowings	-	-	-	-	8,965,829	8,965,829 [(5)]
Derivative financial instruments	507,146	-	-	-	-	507,146 [(1)]
Other liabilities	-	-	-	-	1,255,742	1,255,742 [(1)]
Total other liabilities	507,146	279,908	-	-	13,560,729	14,347,783
Subordinated debentures	-	-	-	-	339,140	339,140 [(6)]

[1] Fair value estimated to equal carrying value.

[2] Fair value of loans estimated at $48,675,761.

[3] Fair value of deposits estimated at $35,788,176.

[4] Fair value of wholesale borrowings estimated at $3,675,152.

[5] Fair value of collateralized borrowings estimated at $8,960,825.

[6] Fair value of subordinated debentures estimated at $342,249.

As at March 31, 2018 ($ in thousands)	Carrying value: Financial instruments classified as at FVTPL	Financial instruments designated as at FVTPL	Available-for-sale instruments measured at fair value	Financial instruments measured at amortized cost	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)
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 loan losses	-	-	-	(509,024)	(509,024)	
Total loans	-	-	-	44,111,040	44,111,040	(2)
Derivative financial instruments	576,712	-	-	-	576,712	
Other assets	-	-	-	178,405	178,405	
Total other assets	576,712	-	-	178,405	755,117	(1)
Financial liabilities						
Redeemable fixed-date deposits	$ -	$ -	$ -	$ 2,368,853	$ 2,368,853	
Non-redeemable fixed-date deposits	-	-		6,724,047	6,724,047	
Saving accounts	-	-		9,525,181	9,525,181	
Transaction accounts	-	-		7,751,748	7,751,748	
Notice accounts	-	-	-	6,313,944	6,313,944	
Total deposits	-	-	-	32,683,773	32,683,773	(3)
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	673,162	-	-	-	673,162	(1)
Other liabilities	-	-	-	986,370	986,370	(1)
Total other liabilities	673,162	514,980	-	14,327,139	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.

Fair-Value Hierarchy

Financial instruments recorded at fair value in the consolidated statement of financial position are classifie 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, 2019 and 2018, there were no transfers of financial instruments between levels 1 and 2 or into and out of level 3.

The categories of financial instruments whose fair values are classified as level 3 consist of investments made by AltaCorp and investments made by ATB in a broad range of private Alberta companies. Valuation techniques are disclosed in note 8.

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, 2019

($ in thousands)	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions	**$ -**	**$ 1,097,307**	**$ -**	**$ 1,097,307**
Securities				
Securities measured at FVTPL	**33,062**	**-**	**35,440**	**68,502**
Securities measured at FVOCI	**3,910,168**	**-**	**1,628**	**3,911,796**
Other assets				
Derivative financial instruments	**1,860**	**640,210**	**-**	**642,070**
Total financial assets	**$ 3,945,090**	**$ 1,737,517**	**$ 37,068**	**$ 5,719,675**
Financial liabilities				
Wholesale borrowings	**-**	**279,908**	**-**	**279,908**
Other liabilities				
Derivative financial instruments	**2,803**	**504,343**	**-**	**507,146**
Total financial liabilities	**$ 2,803**	**$ 784,251**	**$ -**	**$ 787,054**

As at March 31, 2018

($ in thousands)	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at FVTPL	$ -	$ 1,110,848	$ -	$ 1,110,848
Securities				
Designated at FVTPL	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

ATB performs a sensitivity analysis for fair-value measurements classified as level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 8 for the other securities designated at fair value through profit and loss.

The following tables present the changes in fair value of level 3 financial instruments:

($ in thousands)	Securities designated as at FVOCI	Securities classified as at FVTPL
Fair value as at March 31, 2018	**$ -**	**$ 22,940**
Total realized and unrealized losses included in net income	**-**	**3,574**
Total realized and unrealized gains included in other comprehensive income	**-**	**-**
Purchases and issuances	**1,628**	**8,926**
Sales and settlements	**-**	**-**
Fair value as at March 31, 2019	**$ 1,628**	**$ 35,440**
Change in unrealized losses included in income with respect to financial instruments held as at March 31, 2019	**$ -**	**$ 3,574**

($ in thousands)	Securities available for sale	Securities designated at FVTPL
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

The consolidated statement of income line item for net gains on securities includes realized and unrealized fair-value movements on all financial instruments classified and designated at FVTPL and realized gains on securities measured at FVOCI.

Offsetting Financial Assets and Financial Liabilities

A financial asset or liability 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, 2019 *($ 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)]	Financial collateral received/ pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	**$ 400,355**	**$ -**	**$ 400,355**	**$ -**	**$ -**	**$ 400,355**
Derivative financial instruments	**642,070**	**-**	**642,070**	**335,137**	**157,810**	**149,123**
Amounts receivable from clients and financial institutions	**142,202**	**-**	**142,202**	**123,390**	**-**	**18,812**
	$ 1,184,627	**$ -**	**$ 1,184,627**	**$ 458,527**	**$ 157,810**	**$ 568,290**
Financial liabilities						
Securities sold under reverse repurchase agreements	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Derivative financial instruments	**507,146**	**-**	**507,146**	**335,137**	**100,825**	**71,184**
Amounts payable to clients and financial institutions	**123,954**	**-**	**123,954**	**123,390**	**-**	**564**
	$ 631,100	**$ -**	**$ 631,100**	**$ 458,527**	**$ 100,825**	**$ 71,748**

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)]	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**

[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.

6 Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in the Risk Management section of the MD&A relating to credit, market, foreign-exchange, and liquidity risks. These risks are an integral part of the 2019 consolidated financial statements.

7 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 designated at fair value through profit and loss, and are recorded at fair value. Interest income on interest-bearing deposits with financial institutions is recorded on an accrual basis. Cash has been classified as financial instruments measured at amortized cost, as disclosed in 5.

As at March 31, 2019, the carrying value of interest-bearing deposits with financial institutions consists of $1.1 billion (2018: $1.1 billion) designated at fair value through profit and loss.

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 held in interest reinvestment accounts in connection with ATB's participation in the Canada Mortgage Bonds program. As at March 31, 2019, the amount of restricted cash is $153.6 million (2018: $124.1 million).

8 Securities

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

As at March 31, 2019 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities measured at FVTPL				
Issued or guaranteed by the federal or provincial government	$ 15,000	$ -	$ -	$ 15,000
Other securities	17,146	32,642	3,714	53,502
Total securities measured at FVTPL	$ 32,146	$ 32,642	$ 3,714	$ 68,502
Securities measured at FVOCI				
Issued or guaranteed by the federal or provincial government	$ 1,644,913	$ 2,265,255	$ -	$ 3,910,168
Other securities	-	-	1,628	1,628
Total securities measured at FVOCI	$ 1,644,913	$ 2,265,255	$ 1,628	$ 3,911,796
Securities purchased under reverse repurchase agreements				
Issued or guaranteed by the federal or provincial government	400,355	-	-	400,355
Total securities purchased under reverse repurchase agreements	$ 400,355	$ -	$ -	$ 400,355

As at March 31, 2018 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities measured at FVTPL				
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 FVTPL	$ 2,182,587	$ 2,577,543	$ -	$ 4,760,130

Other Securities

These securities in the current year relate to investments made by AltaCorp and investments made by ATB in a broad range of private Alberta companies. There is no observable market price for the investments made in these private Alberta companies as at the balance sheet date. ATB estimated the fair value using a combination of discounted cash flows and market multiples derived from quoted prices of comparative companies, specifically the expected earnings before interest, income tax, depreciation, and amortization (EBITDA). The key assumptions in this model are 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 $3.2 million (2018: $2.2 million). The estimate is also adjusted for the effect of the non-marketability of these investments.

9 Loans

In the retail portfolio, each borrower is assessed based on its beacon score. The following table outlines the borrower's score assigned to each range:

Risk assessment	Beacon score range
Very low risk	800–900
Low risk	700–799
Medium risk	620–699
High risk	619 or lower

For non-retail loans, each borrower is assigned a borrower risk rating (BRR), with the following table outlining the BRR assigned to each range:

Risk assessment	BRR range
Very low risk	1–4
Low risk	5–7
Medium risk	8–9
High risk	10–13

Credit Quality

The following table presents the gross carrying amount of loans and the full contractual amount of undrawn loan commitments subject to the impairment requirements under IFRS 9:

As at March 31, 2019	Performing		Impaired	
($ in thousands)	Stage 1	Stage 2	Stage 3	Total
Business				
Very low risk	$ 3,051,685	$ 329,503	$ -	$ 3,381,188
Low risk	6,975,076	7,571,098	-	14,546,174
Medium risk	1,574,296	2,774,313	-	4,348,609
High risk	3,408	532,346	-	535,754
Not rated[1]	186,953	13,986	-	200,939
Impaired	-	-	821,010	821,010
Total	11,791,418	11,221,246	821,010	23,833,674
Residential mortgages				
Very low risk	6,663,812	14,392	-	6,678,204
Low risk	5,842,586	25,892	-	5,868,478
Medium risk	2,779,640	37,595	-	2,817,235
High risk	634,932	339,389	-	974,321
Not rated[1]	18,176	850	-	19,026
Impaired	-	-	81,475	81,475
Total	15,939,146	418,118	81,475	16,438,739
Personal				
Very low risk	2,571,482	15,264	-	2,586,746
Low risk	2,063,146	224,641	-	2,287,787
Medium risk	958,758	264,940	-	1,223,698
High risk	280,698	187,243	-	467,941
Not rated[1]	28,847	7,206	-	36,053
Impaired	-	-	65,318	65,318
Total	5,902,931	699,294	65,318	6,667,543
Credit card				
Very low risk	70,167	14,246	-	84,413
Low risk	182,586	77,615	-	260,201
Medium risk	134,752	74,598	-	209,350
High risk	24,806	67,151	-	91,957
Not rated[1]	9,419	68,207	-	77,626
Impaired	-	-	7,134	7,134
Total	421,730	301,817	7,134	730,681
Total loans	34,055,225	12,640,475	974,937	47,670,637
Total allowance for loan losses	(73,274)	(116,620)	(475,019)	(664,913)
Total net loans	$ 33,981,951	$ 12,523,855	$ 499,918	$ 47,005,724
Undrawn loan commitments - retail				
Very low risk	4,196,800	25,059	-	4,221,859
Low risk	969,986	85,306	-	1,055,292
Medium risk	133,182	43,728	-	176,910
High risk	15,328	28,796	-	44,124
Not rated[1]	12,544	10,275	-	22,819
Total	$ 5,327,840	$ 193,164	$ -	$ 5,521,004
Undrawn loan commitments - non-retail				
Very low risk	4,770,110	292,746	-	5,062,856
Low risk	3,258,313	3,485,152	-	6,743,465

Medium risk	**254,893**	**675,335**	**-**	**930,228**
High risk	**180**	**297,076**	**-**	**297,256**
Not rated[1]	**39,034**	**206,142**	**-**	**245,176**
Total	**$ 8,322,530**	**$ 4,956,451**	**$ -**	**$ 13,278,981**

[1]Loans where the customer account level risk rating has not been determined have been included in the not rated category.

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

The total net carrying value of the above loans includes those denominated in U.S. funds, totalling $891.5 million as at March 31, 2019 (2018: $758.7 million). As at March 31, 2019, the amount of foreclosed assets held for resale is $27.0 million (2018: $14.6 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, 2019 *($ in thousands)*	**Residential mortgages**	**Business**	**Personal**	**Credit card**	**Total**	**Percentage of total gross loans**
Up to 1 month[(1)]	**$ 106,851**	**$ 20,177**	**$ 55,575**	**$ 41,340**	**$ 223,943**	**0.47%**
Over 1 month up to 2 months	**113,344**	**107,037**	**55,719**	**9,456**	**285,556**	**0.60%**
Over 2 months up to 3 months	**14,869**	**21,635**	**16,754**	**3,870**	**57,128**	**0.12%**
Over 3 months	**2,148**	**13,846**	**2,239**	**6,205**	**24,438**	**0.05%**
Total past due but not impaired	**$ 237,212**	**$ 162,695**	**$ 130,287**	**$ 60,871**	**$ 591,065**	**1.2%**

[1] Loans past due by 1 day are not disclosed as they are not administratively considered past due.

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	0.6%
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%

[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.

10 Allowance for Loan Losses

Key Inputs and Assumptions

Measuring expected credit losses is based on a complex calculation that involves a number of variables and assumptions. The key inputs for determining expected credit losses are:

- A borrower's credit quality, reflected through changes in risk ratings
- Forward-looking macroeconomic conditions
- Changes to the probability-weighted scenarios and
- Stage migration as a result of the inputs noted above

Forward-Looking Information

Relevant forward-looking economic information is incorporated for each loan portfolio when measuring expected credit losses, based on a five year outlook considering a combination of past, current and future economic conditions and outlooks. Refer to note 2 for further information on how forward-looking information is incorporated to measure expected credit losses.

The following table presents the primary forward-looking economic information used to measure expected credit losses over the next 12 months and the remaining two-year forecast period for the three probability-weighted scenarios:

As at March 31, 2019	Baseline scenario		Optimistic scenario		Pessimistic scenario	
	Next 12 months	2–3 years	Next 12 months	2–3 years	Next 12 months	2–3 years
Unemployment rate (%)	6.6%	6.9%	6.2%	6.3%	8.8%	7.5%
Housing starts	25,900	24,600	29,400	28,066	19,200	20,233
Interest rate (%)	2.00%	2.67%	2.25%	2.75%	1.75%	2.08%
Oil prices (WTI, $US/bbl)	56	63	75	88	50	60
Foreign-exchange rate ($1 Cdn / US)	0.76	0.80	0.80	0.90	0.72	0.76

Sensitivity of Allowance for Loan Losses

The stage 1 and 2 allowances for loan losses are sensitive to the inputs used in the model, as described in note 2. Changes to these inputs and assumptions would have an impact when assessing for a significant increase in credit risk and the measurement of expected credit losses.

The following table presents a comparison between the reported allowance for loan losses for stage 1 and 2 loans and the allowance under the baseline, optimistic, and pessimistic scenarios:

	Reported under IFRS 9	Baseline scenario	Optimistic scenario	Pessimistic scenario
Allowance for loan losses (Stage 1 and 2)	$ 189,894	$ 186,096	$ 174,703	$ 218,378

The following table presents the estimated impact of staging on the allowance for loan losses for loans and off-balance sheet commitments if they were fully calculated under stage 1 compared to the actual allowance recorded:

	Stage 1 and 2 allowance under IFRS 9	Allowance – 100% in Stage 1	Impact of staging
Loans	$ 189,894	$ 131,027	$ (58,867)

	For the year ended March 31, 2019				
($ in thousands)	Balance at beginning of period	Provision for loan losses	Net write-offs	Discounted cash flows on impaired loans and other	Balance at end of period

Business	$342,366	$ 275,409	$ (64,897)	$ (6,053)	$ 546,824
Residential mortgages	5,406	916	(860)	31	5,493
Personal	59,201	46,769	(34,146)	(326)	71,498
Credit card	39,657	15,051	(13,643)	32	41,098
Total	**$446,630**	**$ 338,145**	**$ (113,546)**	**$ (6,316)**	**$ 664,913**

The following tables reconcile the opening and closing allowances for loans, by stage, for each major category:

Allowance for loan losses – Business	For the year ended March 31, 2019			
	Performing		Impaired	
($ in thousands)	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	$ 27,702	$ 50,214	$ 264,450	$ 342,365
Provision for loan losses				
Transfers (out) in of Stage 1[1]	(3,456)	3,214	241	-
Transfers (out) in of Stage 2[1]	(22,439)	11,572	10,867	-
Transfers (out) in of Stage 3[1]	(9,270)	(86,994)	96,264	-
New originations[2]	14,793	23,878	60,850	99,521
Repayments[3]	(11,749)	(21,007)	(3,228)	(35,985)
Remeasurements[4]	26,723	96,832	88,318	211,873
Write-offs	-	-	(69,121)	(69,121)
Recoveries	-	-	4,224	4,224
Discounted cash flows on impaired loans and other	11	154	(6,218)	(6,053)
Balance at end of period	**$ 22,314**	**$ 77,863**	**$ 446,648**	**$ 546,825**

Allowance for loan losses – residential mortgages	For the year ended March 31, 2019			
	Performing		Impaired	
($ in thousands)	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	$ 2,110	$ 1,313	$ 1,983	$ 5,406
Provision for loan losses				
Transfers in (out) of Stage 1[1]	(57)	52	5	-
Transfers (out) in of Stage 2[1]	(274)	(107)	381	-
Transfers (out) in of Stage 3[1]	(258)	(1,704)	1,962	-
New originations[2]	327	104	105	536
Repayments[3]	(73)	(62)	(472)	(607)
Remeasurements[4]	(280)	1,356	(89)	987
Write-offs	-	-	(1,737)	(1,737)
Recoveries	-	-	877	877
Discounted cash flows on impaired loans and other	-	-	31	31
Balance at end of period	**$ 1,495**	**$ 952**	**$ 3,046**	**$ 5,493**

Allowance for loan losses – Personal	For the year ended March 31, 2019			
	Performing		Impaired	
($ in thousands)	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	$ 27,676	$ 11,152	$ 20,373	$ 59,201

Provision for loan losses				
Transfers in (out) of Stage 1(1)	(957)	634	323	-
Transfers in (out) of Stage 2(1)	(3,560)	2,407	1,153	-
Transfers (out) in of Stage 3(1)	(7,844)	(2,294)	10,138	-
New originations(2)	9,841	3,588	5,616	19,045
Repayments(4)	(3,216)	(933)	(182)	(4,331)
Remeasurements(4)	16,968	(2,769)	17,856	32,055
Write-offs	(10)	(21)	(36,841)	(36,872)
Recoveries	-	-	2,726	2,726
Discounted cash flows on impaired loans and other	-	-	(326)	(326)
Balance at end of period	**$ 38,898**	**$ 11,764**	**$ 20,836**	**$ 71,498**

Allowance for loan losses – credit cards	**For the year ended March 31, 2019**			
	Performing		**Impaired**	
($ in thousands)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	$ 13,151	$ 24,104	$ 2,402	$ 39,657
Provision for loan losses				
Transfers (out) in of Stage 1(1)	(5)	8	(2)	-
Transfers (out) in of Stage 2(1)	(5,030)	1,436	3,594	-
Transfers (out) in of Stage 3(1)	(36)	(6,160)	6,197	-
New originations(2)	1,041	581	-	1,623
Repayments(3)	(829)	(3,712)	(2,963)	(7,504)
Remeasurements(4)	2,260	9,768	8,904	20,932
Write-offs	-	-	(20,734)	(20,734)
Recoveries	-	-	7,091	7,091
Discounted cash flows on impaired loans and other	15	17	(0)	33
Balance at end of period	**$ 10,567**	**$ 26,041**	**$ 4,489**	**$ 41,097**

	For the year ended March 31, 2018				
($ in thousands)	Balance at beginning of period	Provision for loan losses	Net write-offs	Discounted cash flows on impaired loans and other	Balance at end of period
Business	$364,969	80,885	(27,876)	(9,126)	$408,852
Residential mortgages	20,733	(4,408)	(235)	-	16,090
Personal	95,194	33,437	(56,256)	-	72,375
Credit card	28,792	(4,908)	(12,177)	-	11,707
Total	$509,688	105,006	(96,544)	(9,126)	$509,024

11 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)*	**2019** **Favourable position**	**2019** **Unfavourable position**	2018 Favourable position	2018 Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Swaps	**$ 16,532**	**$ (34,845)**	$ 29,300	$ (11,202)
Futures	**1,860**	**(2,803)**	-	-
Other	**51,940**	**(31,897)**	32,690	(42,340)
	70,332	**(69,545)**	61,990	(53,542)
Embedded derivatives				
Market-linked deposits	**-**	**(1,449)**	-	(1,835)
	-	**(1,449)**	-	(1,835)
Foreign-exchange contracts				
Forwards	**25,648**	**(20,482)**	25,308	(17,907)
Cross-currency swaps	**32,460**	**(24,211)**	19,118	(24,362)
Commodity contracts				
Forwards	**284,464**	**(242,324)**	348,224	(331,586)
Total fair-value-ineligible contracts	**342,572**	**(287,017)**	392,650	(373,855)
Contracts eligible for hedge accounting				
Foreign-exchange contracts				
Cross-currency swaps	**28,928**	**-**	-	-
Interest rate contracts				
Swaps	**200,238**	**(149,135)**	122,072	(243,930)
Total fair-value-eligible contracts	**229,166**	**(149,135)**	122,072	(243,930)
Total fair value	**$ 642,070**	**$ (507,146)**	$ 576,712	$ (673,162)
Less impact of master netting agreements	**(335,137)**	**335,137**	(387,632)	387,632
Less impact of financial institution counterparty collateral held / posted	**(157,810)**	**100,825**	(13,973)	175,892
Residual credit exposure on derivatives to ATB	**$ 149,123**	**$ (71,184)**	$ 175,107	$ (109,638)

The residual credit exposure presented above includes contracts with financial institutions and client counterparties. For the residual amounts above, $149.1 million (2018: $175.2 million) of the derivative asset and $69.7 million (2018: $107.8 million) of the derivative liability exposure relates to client counterparties.

ATB has recognized an unrealized gain of $12.6 million in profit and loss during the year (2018: unrealized loss of $3.6 million) relating to accounting for ineffectiveness arising from its cash flow hedges.

The following shows when hedged cash flows, used to manage risk relating to certain loans, deposits, and securities as noted in note 2(b), will be recognized in the consolidated statement of income:

As at March 31, 2019

($ in thousands)	**Within 1 year**	**1–2 years**	**2–3 years**	**3–4 years**	**4–5 years**	**Over 5 years**	**Total**
Cash inflows	**$ 654,471**	**$ 498,452**	**$ 327,603**	**$ 194,666**	**$ 131,311**	**$ 349,543**	**$ 2,156,046**
Cash outflows	**(856,363)**	**(654,404)**	**(441,463)**	**(275,735)**	**(195,478)**	**(520,623)**	**(2,944,066)**
Net cash flows	**$ (201,892)**	**$ (155,952)**	**$ (113,860)**	**$ (81,069)**	**$ (64,167)**	**$ (171,080)**	**$ (788,020)**

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)

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 9 years as at March 31, 2019 (2018: 10 years).

The following shows the amounts relating to the hedging and hedged items for ATB's fair-value hedges:

		Opening fair value		Hedge ineffectiveness			Fair value at March 31, 2019		Fair value at March 31, 2018	
($ in thousands)	Notional amount	Asset	Liability	Gains (losses) on hedging derivative used to determine hedge ineffectiveness	Ineffectiveness recorded in other income – foreign exchange	Cumulative net fair value change	Asset	Liability	Asset	Liability
Foreign-exchange Risk										
Hedge of U.S. dollar wholesale borrowing[1]	267,200	-	-	-	-	17,913	17,913	-	-	-

		Opening fair value		Hedge ineffectiveness			Fair value at March 31, 2019		Fair value at March 31, 2018	
($ in thousands)	Notional amount	Asset	Liability	Gains (losses) on hedged item used to determine hedge ineffectiveness	Ineffectiveness recorded in other income – foreign exchange	Cumulative net fair value change	Asset	Liability	Asset	Liability
U.S. dollar wholesale borrowing[2]	267,200	-	261,995	-	-	(17,913)	-	279,908	-	-

[1] The fair value of the hedging derivative is reported as part of derivative asset and derivative liability on the consolidated statement of financial position.
[2] The fair value of the hedged item is reported as part of wholesale borrowings on the consolidated statement of financial position.

Term to Maturity

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged and have varying maturity dates. Notional amounts do not represent assets or liabilities and are not recorded in the consolidated statement of financial position. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

As at March 31, 2019 *($ 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	**$ 7,287,174**	**$ 20,784,275**	**$ 632,300**	**$ 6,967,100**	**$ 14,997,694**	**$ 5,474,355**	**$ 28,071,449**
Other	**2,999,052**	**-**	**73,440**	**514,744**	**1,525,185**	**885,683**	**2,999,052**
Embedded derivatives							
Market linked deposits	**384,098**	**-**	**17**	**77**	**383,974**	**30**	**384,098**
Foreign-exchange contracts							
Forwards	**2,879,492**	**-**	**2,118,920**	**575,322**	**185,250**	**-**	**2,879,492**
Cross-currency swaps	**766,869**	**981,712**	**148,590**	**52,890**	**1,254,517**	**292,584**	**1,748,581**
Commodity contracts							
Forwards	**2,553,397**	**-**	**628,854**	**1,265,663**	**658,880**	**-**	**2,553,397**
Exchange-traded contracts							
Interest rate contracts							
Futures	**800,000**	**-**	**450,000**	**350,000**	**-**	**-**	**800,000**
Total	**$ 17,670,082**	**$ 21,765,987**	**$ 4,052,121**	**$ 9,725,796**	**$ 19,005,500**	**$ 6,652,652**	**$ 39,436,069**

As at March 31, 2018 ($ 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	$ 3,601,890	$ 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

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 $112.7 million as at March 31, 2019 (2018: $0.02 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 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:

	2019			2018		
		credit			credit	
As at March 31 *($ in thousands)*	**replacement cost**	**equivalent amount**	**risk-adjusted balance**	replacement cost	equivalent amount	risk-adjusted balance
Contracts ineligible for hedge accounting						
Interest rate contracts						
Swaps	**$ 16,532**	**$ 23,818**	**$ 4,764**	$ 29,300	$ 36,110	$ 7,222
Futures	**1,860**	**1,860**	**372**			
Other	**51,940**	**65,818**	**31,338**	32,691	39,967	15,602
Foreign-exchange contracts						
Forwards	**25,648**	**45,890**	**14,908**	25,305	46,676	14,699
Cross-currency swaps	**32,460**	**56,406**	**13,051**	19,118	48,827	11,998
Commodity contracts						
Forwards	**284,464**	**418,072**	**138,470**	348,225	480,873	176,552
Contracts eligible for hedge accounting						
Interest rate contracts						
Cross-currency swaps	**28,928**	**78,014**	**15,603**			
Swaps	**200,238**	**273,750**	**54,750**	122,073	166,647	33,329
Total	**642,070**	**963,628**	**273,256**	$ 576,712	$ 819,100	$ 259,402

12 Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	improvements under construction	other equipment under development	Buildings under finance lease	Equipment under finance lease	Land	Total
Cost										
Balance as at April 1, 2017	$ 237,182	$ 85,175	$ 101,524	$ 78,930	$ 2,301	$ 9,623	$ 246,200	$ -	$ 7,328	$ 768,263
Transfers and acquisitions	4,195	12,466	1,267	4,737	5,879	8,789	3,456	3,919	-	44,708
Transfers and 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
Balance as at April 1, 2018	**$ 241,377**	**$ 97,641**	**$ 102,791**	**$ 81,540**	**$ 5,835**	**$ 9,031**	**$ 247,243**	**$ 3,919**	**$ 7,328**	**$ 796,705**
Transfers and acquisitions	**5,714**	**8,182**	**3,422**	**4,512**	**4,012**	**8,385**	**1,361**	**6,209**	**-**	**41,797**
Transfers and disposals	**(12,161)**	**(12,197)**	**(746)**	**(2,567)**	**(5,957)**	**(8,845)**	**(20,016)**	**-**	**-**	**(62,489)**
Balance as at March 31, 2019	**$ 234,930**	**$ 93,626**	**$ 105,467**	**$ 83,485**	**$ 3,890**	**$ 8,571**	**$ 228,588**	**$ 10,128**	**$ 7,328**	**$ 776,013**
Depreciation										
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
Transfers and 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
Balance as at April 1, 2018	**$ 150,982**	**$ 72,897**	**$ 72,543**	**$ 64,754**	**$ -**	**$ -**	**$ 101,239**	**$ 1,198**	**$ -**	**$ 463,613**
Depreciation for the year	**11,964**	**14,743**	**2,335**	**7,135**	**-**	**-**	**16,303**	**3,635**	**-**	**56,115**
Transfers and disposals	**(5,022)**	**(12,171)**	**(361)**	**(2,329)**	**-**	**-**	**(9,466)**	**-**	**-**	**(29,349)**
Balance as at March 31, 2019	**$ 157,924**	**$ 75,469**	**$ 74,517**	**$ 69,560**	**$ -**	**$ -**	**$ 108,076**	**$ 4,833**	**$ -**	**$ 490,379**
Carrying amounts										
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
Balance as at March 31, 2019	**$ 77,006**	**$ 18,157**	**$ 30,950**	**$ 13,925**	**$ 3,890**	**$ 8,571**	**$ 120,512**	**$ 5,295**	**$ 7,328**	**$ 285,634**

For the year ended March 31, 2019, depreciation expense charged to the consolidated statement of income for premises and equipment was $56.1 million (2018: $62.6 million). No impairments were recognized during the year ended March 31, 2019 (2018: nil). A loss of $7.2 million (2018: a gain of $0.01 million) was recognized during the year for the disposal and write-downs of capital assets.

13 Software and Other Intangibles

($ in thousands)	Computer software	Software under development	Other intangibles	Total
Cost				
Balance as at April 1, 2017	$ 455,987	$ 37,585	$ 193	$ 493,765
Transfers and acquisitions	57,369	61,118	4	118,491
Transfers and disposals	-	(32,893)	-	(32,893)
Balance as at March 31, 2018	$ 513,356	$ 65,810	$ 197	$ 579,363
Balance as at April 1, 2018	**$ 513,356**	**$ 65,810**	**$ 197**	**$ 579,363**
Transfers and acquisitions	**87,151**	**59,451**	**36**	**146,638**
Transfers and disposals	**(12,012)**	**(54,047)**	**-**	**(66,059)**
Balance as at March 31, 2019	**$ 588,495**	**$ 71,214**	**$ 233**	**$ 659,942**
Accumulated Amortization				
Balance as at April 1, 2017	$ 219,131	$ -	$ 18	$ 219,149
Amortization for the year	67,400	-	18	67,418
Transfers and disposals	-	-	-	-
Balance as at March 31, 2018	**$ 286,531**	**$ -**	**$ 36**	**$ 286,567**
Balance as at April 1, 2018	**$ 286,531**	**$ -**	**$ 36**	**$ 286,567**
Amortization for the year	**81,563**	**-**	**22**	**81,585**
Transfers and disposals	**(11,075)**	**-**	**-**	**(11,075)**
Balance as at March 31, 2019	**$ 357,019**	**$ -**	**$ 58**	**$ 357,077**
Carrying amounts				
Balance as at March 31, 2018	$ 226,825	$ 65,810	$ 161	$ 292,796
Balance as at March 31, 2019	**$ 231,476**	**$ 71,214**	**$ 175**	**$ 302,865**

For the year ended March 31, 2019, amortization expense charged to the consolidated statement of income for software and intangibles was $81.6 million (2018: $67.4 million). No impairments were recognized during the year ended March 31, 2019 (2018: nil). A loss of $0.9 million (2018: nil) was recognized during the year for the disposal and write-downs of capital assets.

14 Other Assets

Other assets consist of the following:

As at March 31 *($ in thousands)*	**2019**	2018
Prepaid expenses and other receivables	**$ 206,478**	$ 194,444
Accrued interest receivable	**64,817**	60,612
Other	**158,601**	117,794
Total	**$ 429,896**	$ 372,850

Of the $158.6 million (2018: $117.8 million) included in other assets is $124.0 million for an amount owed to ATB for a foreign-exchange-management product we sold before March 31, 2019, for which we have not received funds.

15 Deposits

Deposit balances consist of the following:

As at March 31, 2019
($ 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	
Redeemable fixed date deposits	$ -	$ 1,877,946	$ 102,283	$ 38,189	$ 16,612	$ 12,242	$ 203	$ 2,047,475
Non-Redeemable fixed date deposits	-	4,885,730	1,965,292	1,152,682	992,208	180,279	268	9,176,459
Savings accounts	10,004,043	-	-	-	-	-	-	10,004,043
Transactions accounts	7,574,046	-	-	-	-	-	-	7,574,046
Notice accounts	7,119,926	-	-	-	-	-	-	7,119,926
	$ 24,698,015	$ 6,763,676	$ 2,067,575	$ 1,190,871	$ 1,008,820	$ 192,521	$ 471	$ 35,921,949

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	
Redeemable fixed date deposits	$ 24,129	$ 2,122,763	$ 59,760	$ 42,776	$ 13,883	$ 31,332	$ 74,209	$ 2,368,853
Non-Redeemable fixed date deposits	-	4,138,493	1,601,874	525,439	160,758	297,338	146	6,724,047
Savings accounts	9,525,181	-	-	-	-	-	-	9,525,181
Transactions accounts	7,751,748	-	-	-	-	-	-	7,751,748
Notice accounts	6,313,944	-	-	-	-	-	-	6,313,944
	$ 23,615,002	$ 6,261,256	$ 1,661,634	$ 568,215	$ 174,641	$ 328,670	$ 74,355	$ 32,683,773

The total deposits presented above include $1.7 billion (2018: $1.2 billion) denominated in U.S. funds.

As at March 31, 2019, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule totalled $135.2 million (2018: $61.9 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, 2019, the fee was $53.7 million (2018: $49.4 million), with $47.7 million (2018: $41.6 million) recorded to non-interest expenses for deposits and the remainder to net interest income for wholesale borrowings.

16 Collateralized Borrowings

Canada Mortgage Bonds (CMB) Program

ATB periodically securitizes insured residential mortgage loans by participating in the *National Housing Act* Mortgage-Backed Security 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, 2019, is $8.5 billion (2018: $7.8 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)*	**2019**	2018
Principal value of mortgages pledged as collateral	**$ 7,610,203**	$ 6,947,936
ATB mortgage-backed securities pledged as collateral through repurchase agreements	**1,017,580**	983,153
Principal value of credit card receivables pledged as collateral	**677,148**	620,851
Total	**$ 9,304,931**	$ 8,551,940
Associated liabilities	**$ 8,965,829**	$ 8,408,453

17 Other Liabilities

Other liabilities consist of the following:

As at March 31 *($ in thousands)*	Note	**2019**	2018
Accounts payable and accrued liabilities		**$ 880,516**	$ 632,390
Accrued interest payable		**165,125**	110,287
Payment in lieu of tax and income taxes payable	21	**41,618**	81,436
Due to clients, brokers, and dealers		**65,728**	74,363
Accrued pension-benefit liability	20	**77,161**	63,045
Achievement notes	25	**63,080**	59,152
Deposit guarantee fee payable		**53,676**	49,379
Total		**$ 1,346,904**	$ 1,070,052

18 Subordinated Debentures

ATB privately places debentures with the Crown in right of Alberta. These debentures are subordinated to deposits and other liabilities and are unsecured, non-convertible, non-redeemable, and non-transferable. They bear a fixed rate of interest payable semi-annually. The outstanding subordinated debentures were issued with an original term of five years.

As detailed in note 21, 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	**2019**	2018
June 30, 2018	3.4%	**$ -**	$ 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**	45,038
June 30, 2023	3.0%	**81,063**	-
Total		**$ 339,140**	$ 331,199

19 Salaries and Benefits

ATB has included certain disclosures required in the Corporate Governance and Executive Total Rewards sections of the MD&A relating to executive salary and compensation.

20 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, 2019, 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 employee promoted to a management position joins the plan under the DC provision and any pension benefit earned in the PSPP is deferred at Alberta Pension Services (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, 2019

($ in thousands)	Registered plan	Supplemental and other	ATB's share of PSPP
Active	**$ 156,867**	**$ 1,342**	**$ 144,810**
Deferred	**24,758**	**1,116**	**40,006**
Pensioners and beneficiaries	**259,072**	**6,579**	**141,966**
Total defined benefit obligation	**$ 440,697**	**$ 9,037**	**$ 326,782**

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

Breakdown of Plan Assets

A breakdown of plan assets for the ATB Plan is as follows:

	2019		2018	
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	**$ -**	**$ 82**	$ -	$ 84
Other issuers	**-**	**328,814**	-	311,215
Shares	**-**	**110,876**	-	117,165
Cash and money-market securities	**-**	**1,610**	-	2,930
Total fair value of plan assets	**$ -**	**$ 441,382**	**$ -**	$ 431,394

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, 2019, total cash paid or payable for employee benefits—cash contributed by ATB for the DB and DC provisions of the ATB Plan—made directly to beneficiaries for the unfunded SRP and cash contributed to the PSPP was $47.6 million (2018: $56.8 million).

Contributions expected during the upcoming year are $1.7 million (2018: $6.4 million) for the DB portion of the ATB plan, $0.4 million (2018: $0.4 million) for the unfunded SRP and CPS, and $12.0 million (2018: $12.3 million) for the PSPP.

Pension Plan Obligation Maturity Profile

For 2019, the weighted-average financial duration of the main group plans was approximately 15 years (2018: 16 years).

Net Accrued Benefit Liability

The funded status and net accrued pension-benefit liability for the DB provisions of the ATB Plan and the other pension obligations, which include the PSPP, SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, OPEB, and the notional supplemental plan (NSP) consist of the following:

As at March 31 *($ in thousands)*	**2019**	2018
Registered plan		
Fair value of plan assets	**$ 441,383**	$ 431,394
Projected benefit obligation	**(440,697)**	(416,475)
Net pension-benefit asset[1]	**$ 686**	$ 14,919
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	**$ (9,037)**	$ (9,611)
Net pension-benefit liability[1]	**$ (9,037)**	$ (9,611)
ATB's share of PSPP		
Fair value of plan assets	**$ 264,132**	$ 250,046
Projected benefit obligation	**(326,782)**	(312,659)
Net pension-benefit liability[1]	**$ (62,650)**	$ (62,613)
Notional supplemental plan liability	**$ (6,160)**	$ (5,740)
Total net pension-benefit liability[1], [2]	**$ (77,161)**	$ (63,045)

[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 17.)

Other Comprehensive Income

As at March 31	**Registered plan**		**Supplemental and other**		**ATB's share of PSPP**	
($ in thousands)	**2019**	2018	**2019**	2018	**2019**	2018
Actuarial (gain) loss on plan assets	**$ (9,888)**	$ (10,408)	**$ -**	**$ -**	**$ (3,403)**	$ (10,225)
Effect of changes in financial assumptions	**24,892**	6,107	**390**	255	**13,185**	8,003
Experience loss (gain) on plan liabilities	**583**	(973)	**(63)**	(278)	**(12,779)**	(12,667)
Amount recognized in other comprehensive loss	**$ 15,587**	$ (5,274)	**$ 327**	$ (23)	**$ (2,997)**	$ (14,889)
Beginning balance, accumulated other comprehensive loss	**61,903**	67,177	**4,655**	4,678	**(14,724)**	165
Ending balance, accumulated other comprehensive loss (income)	**$ 77,490**	$ 61,903	**$ 4,982**	$ 4,655	**$ (17,721)**	$ (14,724)

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)	**2019**	2018	**2019**	2018	**2019**	2018
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	**$ 431,394**	$ 419,714	**$ -**	$ -	**$ 250,046**	$ 226,682
Contributions from ATB	**1,612**	2,162	**1,240**	12,661	**12,001**	13,492
Interest income	**15,259**	15,753	**-**	-	**9,061**	8,708
Actuarial gain (loss) on plan assets	**10,183**	10,291	**-**	-	**3,403**	10,225
Benefits paid	**(15,960)**	(15,507)	**(1,240)**	(12,661)	**(10,379)**	(9,061)
Actual plan expenses	**(1,105)**	(1,019)	**-**	-	**-**	-
Fair value of plan assets at end of the year	**$ 441,383**	$ 431,394	**$ -**	$ -	**$ 264,132**	$ 250,046
Change in defined benefit obligation						
Projected benefit obligation at beginning of the year	**$ 416,475**	$ 411,472	**$ 9,611**	$ 19,203	**$ 312,659**	$ 301,618
Effect of changes in financial assumptions	**24,892**	6,107	**390**	255	**13,185**	8,003
Experience (gain) loss on plan liabilities	**583**	(973)	**(63)**	(278)	**(12,779)**	(12,667)
Current-service costs	**-**	-	**-**	438	**13,003**	13,481
Past-service costs	**-**	-	**-**	3,150	**-**	-
(Gain)/loss on settlements	**-**	-	**-**	(1,030)	**-**	-
Interest expense	**14,707**	15,376	**339**	534	**11,093**	11,285
Benefits paid	**(15,960)**	(15,507)	**(1,240)**	(12,661)	**(10,379)**	(9,061)
Defined benefit obligation at end of the year	**$ 440,697**	$ 416,475	**$ 9,037**	$ 9,611	**$ 326,782**	$ 312,659
Net pension-benefit asset (liability)	**$ 686**	$ 14,919	**$ (9,037)**	$ (9,611)	**$ (62,650)**	$ (62,613)

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 the PSPP	
($ in thousands)	**2019**	2018	**2019**	2018	**2019**	2018
Current-service costs	**$ -**	$ -	**$ -**	$ 438	**$ 13,003**	$ 13,481
Past-service costs	**-**	-	**-**	3,150	**-**	-
(Gain)/loss on settlements	**-**	-	**-**	(1,030)	**-**	-
Interest expense	**14,707**	15,376	**339**	534	**11,093**	11,285
Interest income	**(15,259)**	(15,753)	**-**	-	**(9,061)**	(8,708)
Administrative expenses and taxes	**810**	1,136	**-**	-	**-**	-
Net pension-benefit expense recognized	**$ 258**	$ 759	**$ 339**	$ 3,092	**$ 15,035**	$ 16,058

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 the PSPP	
	2019	2018	**2019**	2018	**2019**	2018
Accrued benefit obligation as at March 31						
Discount rate at end of the year	**3.3%**	3.6%	**3.3%**	3.6%	**3.3%**	3.6%
Rate of compensation increase[(1)]	**-**	-	**-**	-	**3.2%**	3.3%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of the year	**3.6%**	3.8%	**3.6%**	3.8%	**3.6%**	3.8%
Rate of compensation increase[(1)]	**-**	-	**-**	-	**3.3%**	3.5%
ATB's share of PSPP contributions	**-**	-	**-**	-	**3.6%**	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, 2019, and the related expense for the year then ended:

As at March 31, 2019 *($ in thousands)*		Registered plan: Benefit obligation	Registered plan: Benefit expense	Supplemental and other: Benefit obligation	Supplemental and other: Benefit expense	ATB's share of the PSPP: Benefit obligation	ATB's share of the PSPP: Benefit expense
Discount rate							
Impact of:	1.0% increase	**$ (60,096)**	**$ (2,745)**	**$ (1,122)**	**$ 40**	**$ (49,194)**	**$ (3,983)**
	1.0% decrease	**76,738**	**2,026**	**1,371**	**(55)**	**49,194**	**3,087**
Inflation rate							
Impact of:	1.0% increase	**40,795**	**1,372**	**110**	**3**	**23,783**	**2,156**
	1.0% decrease	**(36,022)**	**(1,210)**	**(99)**	**(4)**	**(23,783)**	**(2,156)**
Rate of compensation increase							
Impact of:	0.25% increase	**2,046**	**75**	**1**	**-**	**7,575**	**977**
	0.25% decrease	**(1,985)**	**(72)**	**-**	**-**	**(7,575)**	**(977)**
Mortality							
Impact of:	10.0% increase	**(8,348)**	**(267)**	**(169)**	**(6)**	**N/A[(1)]**	**N/A[(1)]**
	10.0% decrease	**9,185**	**294**	**187**	**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.

21 Payment in Lieu of Tax

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *Alberta Treasury Branches Regulation (ATB Regulation)*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated 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, excluding AltaCorp's net income, which is subject to income tax.

As at March 31, 2019, ATB accrued a total of $41.6 million (2018: $81.1 million) for payment in lieu of tax. The amount outstanding as at March 31, 2018, was settled on June 30, 2018, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 18.) 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 26.)

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 *($ in thousands)*		**2019**		2018
Income taxes at Canadian statutory tax rate	**$ 657**	**27%**	$ 1,008	27%
(Decrease) increase in income taxes resulting from:				
Tax exempt income	**(810)**	**(33%)**	(484)	(13%)
Prior-year tax adjustment	**22**	**1%**	-	-
Deferred income tax recovery	**-**	**-**	(247)	(7%)
Other	**148**	**6%**	311	8%
Total income tax expense	**$ 17**	**1%**	$ 588	15%

22 Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties. (Refer to note 15.) These services also include OTC foreign-exchange forwards to manage currency exposure. (Refer to note 11.) The fair values of the asset and liability associated with these derivative contracts as at March 31, 2019, are $23.1 million (2018: nil) and nil (2018: $0.5 million), respectively.

During the year, ATB leased certain premises from the Government of Alberta. For the year ended March 31, 2019, the total of these payments was $0.3 million (2018: $0.4 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 15 and 21.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 18.)

ATB entered into a wholesale borrowing agreement with the Minister 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, 2019, wholesale borrowings were $3.6 billion (2018: $4.7 billion) payable to the Minister.

ATB's key management personnel, defined as those having authority and responsibility for planning, directing, and controlling the activities of ATB, include select members of our senior leadership team: the chief executive officer, chief financial officer, chief transformation officer, president and executive vice president ATB Wealth, and chair and CEO, AltaCorp Capital Inc. ATB provides loans to key management personnel, their close family members, and their related entities on market conditions, except for banking products and services that are subject to approved guidelines governing all employees. As at March 31, 2019, $7.6 million (2018: $8.3 million) in loans were outstanding. Key management personnel have deposits provided at standard market rates. As at March 31, 2019, $0.6 million (2018: $0.6 million) in deposits were outstanding.

No impairment losses were recorded against balances outstanding from key management personnel, and no specific allowances for impairment were recognized on balances with these personnel and their close family members. Key management personnel's compensation is disclosed in the Executive Compensation section of the MD&A.

Key management personnel may also purchase achievement notes based on their role within ATB. As at March 31, 2019, $2.9 million (2018: $2.8 million) in achievement notes were outstanding to this group. The following table presents the compensation of ATB's key management personnel:

For the year ended March 31	**2019**	2018
Salaries and other short-term employee benefits [1]	**$ 4,138**	$ 8,437
Post-employment benefits[2]	**39**	3,502
Other long-term benefits[3]	**2,207**	4,522
All other compensation[4]	**4,939**	-
Total[5]	**$ 11,323**	$ 16,461

[1]Salaries and other short-term employee benefits consists of all regular base pay earned, perquisite allowance, severance, board of director compensation and other direct cash remuneration, ATB's share of employee benefits and contributions or payments made on behalf of employees. Short-term incentive plan pay is also included, and is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.
[2]Post-employment benefits consists of retirement and other post-employment benefits.
[3]Other long-term benefits includes long-term incentive, that includes the grant awarded for the year. 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]All other compensation may include the following: perquisites, health care spending account credits, employer contributions to a registered retirement savings plan and an unfunded supplementary pension plan operating on a defined-contribution basis (DC SERP) within the CEO Pension Plan, completion of contract payment and benefit (in lieu of retirement benefits), personal tax advice, and employer contributions to the Notional Supplemental Plan (NSP). ATB makes a notional contribution under the NSP for any annual pension amounts that exceed allowable maximums under the Income Tax Act. The NSP is a non-registered plan that provides notional DC benefits that cannot be provided within the DC plan due to income tax restrictions.
[5]Difference in presentation of current year and prior values based on ATB's regulatory disclosure change for 2019 executive compensation.

23 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 $12.0 billion (2018: $12.2 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)*	**2019**	2018
Loan guarantees and standby letters of credit	**$ 570,678**	$ 564,130
Commitments to extend credit	**18,738,476**	19,584,772
Total	**$ 19,309,154**	$ 20,148,902

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)*	**2019**	2018
Assets pledged to:		
Bank of Canada	**$ 428,887**	$ 413,379
Clearing and Depository Services Inc.	**16,000**	16,000
Total	**$ 444,887**	$ 429,379

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (Refer to notes 11 and 16.)

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)*	**2019**	2018
2019	**$ -**	$ 58,733
2020	**78,207**	33,650
2021	**39,479**	21,883
2022	**23,507**	15,749
2023	**15,349**	13,558
2024	**13,324**	12,643
Thereafter	**59,679**	57,956
Total	**$ 229,545**	$ 214,172

The total expense for premises and equipment operating leases charged to the consolidated statement of income for the year ended March 31, 2019, is $5.7 million (2018: $5.3 million).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

As at March 31 *($ in thousands)*	**2019**	2018
Future minimum lease payments:		
Not later than 1 year	**$ 31,096**	$ 30,496
Later than 1 year but not later than 5 years	**105,325**	114,721
Later than 5 years	**149,032**	158,224
Total future minimum lease payments	**285,453**	303,441
Less finance charges not yet due	**79,158**	93,624
Present value of finance lease commitments	**$ 206,295**	$ 209,817

24 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:

As at March 31, 2019 ($ 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
	Term to maturity/repricing								
Assets									
Cash resources and securities	$ -	$ 5,459,681	$ 5,459,681	$ -	$ 5,459,680	$ -	$ -	$ 218,282	$ 5,677,962
Loans	7,188,492	21,087,809	28,276,301	4,912,122	33,188,423	13,392,323	713,777	(288,799)	47,005,724
Other assets	-	-	-	-	-	-	-	1,660,466	1,660,466
Derivative financial instruments[1]	-	-	6,686,675	2,065,000	8,751,675	7,803,000	4,229,600	-	20,784,275
Total	$ 7,188,492	$ 26,547,490	$ 40,422,657	$ 6,977,122	$ 47,399,778	$ 21,195,323	$ 4,943,377	$ 1,589,949	$ 75,128,427
Liabilities and equity									
Deposits	17,553,856	348,968	17,902,824	5,890,978	23,793,802	4,303,442	24,719	7,799,985	35,921,949
Wholesale borrowings	1,350,200	263,180	1,613,380	225,200	1,838,580	200,000	1,600,000	(19,514)	3,619,066
Collateralized borrowings	611,026	2,056,657	2,667,683	520,886	3,188,568	3,407,164	2,367,083	3,014	8,965,829
Other liabilities	230,875	-	230,875	-	230,875	-	-	1,623,176	1,854,051
Subordinated debentures	82,564	-	82,564	-	82,564	256,576	-	-	339,140
Equity	-	-	-	-	-	-	-	3,644,117	3,644,117
Derivative financial instruments[1]	-	-	14,729,899	755,000	15,484,900	4,601,875	697,500	-	20,784,275
Total	$ 19,828,521	$ 2,668,805	$ 37,227,225	$ 7,392,064	$ 44,619,289	$ 12,769,057	$ 4,689,302	$ 13,050,778	$ 75,128,427
Interest-rate-sensitive gap	$ (12,640,029)	$ 23,878,685	$ 3,195,432	$ (414,942)	$ 2,780,489	$ 8,426,266	$ 254,075	$ (11,460,828)	
as percentage of assets	(16.8%)	31.8%	4.3%	(0.55%)	3.7%	11.2%	0.34%	(15.3%)	

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
	Term to maturity/repricing								
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									
Securities sold under repurchase agreements	16,108,635	411,457	16,520,092	5,268,982	21,789,074	2,914,547	199	7,979,953	32,683,773
Wholesale borrowings	790,827	-	790,827	-	790,827	-	-	-	790,827
Collateralized borrowings	2,051,515	-	2,051,515	925,000	2,976,515	400,000	1,300,000	(20,046)	4,656,469
Other liabilities	341,780	1,768,992	2,110,772	483,382	2,594,154	3,339,161	2,477,046	(1,908)	8,408,453
Subordinated debentures	74,503	-	74,503	-	74,503	-	-	1,668,711	1,743,214
Equity	73,122	-	73,122	-	73,122	258,077	-	-	331,199
Derivative financial instruments[1]	-	-	-	-	-	-	-	3,279,156	3,279,156
Total	$ -	$ -	$ 13,620,700	$ 1,350,000	$ 14,970,700	$ 4,126,875	$ 315,000	$ -	$ 19,412,575
Interest-rate-sensitive gap	$ 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
as percentage of assets	$ (12,973,455)	$ 22,970,339	$ 4,300,459	$ (1,912,610)	$ 2,387,849	$ 9,145,701	$ (419,095)	$ (11,114,455)	
[1] Derivative financial instruments are included in this table at the notional amount.	(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.

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, 2019	**Within 3 months**	**3–12 months**	**Total within 1 year**	**1–5 years**	**Over 5 years**	**Total**
Total assets	**3.8%**	**2.9%**	**3.7%**	**2.9%**	**2.6%**	**3.4%**
Total liabilities and equity	**1.8%**	**1.9%**	**1.8%**	**1.5%**	**2.5%**	**1.7%**
Interest-rate-sensitive gap	**2.0%**	**1.0%**	**1.9%**	**1.4%**	**0.1%**	**1.7%**

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%

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)*	**2019**	2018
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	**$ 38,645**	$ 39,371
200 basis points	**75,765**	76,137
Decrease in interest rates of:		
100 basis points [(1)]	**(50,147)**	(48,732)
200 basis points [(1)]	**(117,534)**	(105,026)

[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.

25 Achievement Notes

ATB sells principal at risk achievement notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Wealth brand name. Under this plan, eligible employees were offered an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, namely ATB Investment Management Inc, ATB Securities Inc. and ATB Insurance Advisors Inc. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note-holder is entitled to:

- Receive a cash payment at maturity representing the then-current value of the note
- Submit a request to sell notes during the annual transaction window (subject to a three-year vesting period and additional restrictions on ATB Wealth executives)
- Receive cash distributions, if any, based on the formula set out in the note

Upon an employee's termination, a designated affiliate of ATB has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of the ATB subsidiaries specified above decreases, that the note-holder will lose some or all of the original investment. There is no public market for these notes, and the valuation of the ATB subsidiaries specified above is based on a model prepared by an external consultant.

During the year, ATB issued $3.3 million (2018: $3.2 million) of these notes, which are recorded in other liabilities in the consolidated statement of financial position. During the current year, $5.5 million (2018: $2.6 million) of the notes were redeemed. An expense of $2.1 million (2018: $2.1 million expense) 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, 2019. As at March 31, 2019, the liability for these notes was $63.1 million (2018: $59.2 million). During the year, $4.1 million (2018: $3.6 million) in distribution payments were accrued for payment to achievement note-holders.

26 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 million 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, 2019, 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)*	**2019**	2018
Tier 1 capital		
Retained earnings	**$ 3,652,955**	$ 3,453,844
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	**124,727**	111,193
Wholesale borrowings	**1,853,760**	1,420,000
Collective allowance for loan losses	**189,894**	201,710
Notional capital	**99,199**	148,977
Total Tier 2 capital	**2,267,580**	1,881,880
Deductions from capital		
Software and other intangibles	**302,865**	292,796
Total capital	**$ 5,617,670**	$ 5,042,928
Total risk-weighted assets	**$ 37,441,480**	$ 35,320,997
Risk-weighted capital ratios		
Tier 1 capital ratio	**9.8%**	9.8%
Total capital ratio	**15.0%**	14.3%

27 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 and
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 March 31, 2018	**3,386**	**$ 4,414**
Shares issued during the year	**-**	**-**
Balance, as at March 31, 2019	**3,386**	**$ 4,414**

(in thousands)	**Shares**	**Value**
Class B shares		
Balance, as at March 31, 2018	**2,569**	**$ 283**
Shares issued during the year	**1,130**	**2,224**
Shares repurchased during the year	**(1,205)**	**(993)**
Share purchase loan	**-**	**-**
Balance, as at March 31, 2019	**2,494**	**$ 1,514**

28 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% at acquisition and has been accounted for using the acquisition method. As at March 31, 2019, ATB's total ownership is 57.6% due to the change in Class B shares during the period. (Refer to 27 for further details.)

(See note 30 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:
The following table summarizes the information relating to ATB's non-controlling interests (NCI):

As as March 31 *($ in thousands)*	**2019**	2018
NCI percentage	**42.4%**	43.2%
Net assets	**$ 3,037**	$ 3,177
Net assets attributable to NCI	**1,288**	1,372
Operating revenue	**20,002**	15,829
Net (loss) income	**(614)**	3,177
Other comprehensive income	**-**	-
Total comprehensive (loss) income	**(614)**	3,177
Net (loss) income allocated to NCI	**(247)**	1,372
Other comprehensive income allocated to NCI	**-**	-
Cash flows (used in) provided by operating activities	**(1,850)**	11
Cash flows used in investing activities	**(282)**	(14)
Cash flows provided by financing activities	**1,729**	49
Net (decrease) increase in cash	**$ (403)**	$ 46

29 Revenue

Disaggregation of Revenue

Fee and commission income is disaggregated below by fee types and area of expertise (AoE) that reflects the nature and amount of revenue collected in accordance with IFRS 15. (Refer to note 30 for further information regarding ATB's segmented information.)

($ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	ATB Wealth	AltaCorp Capital Inc.	Strategic service units	Total
March 31, 2019							
Wealth management	$ -	$ -	$ -	$ 208,736	$ -	$ (4,257)	$ 204,479
Service charges	39,408	30,435	5,461	644	-	411	76,359
Card fees	26,832	39,498	-	116	-	49	66,495
Credit fees	87	6,019	38,669	4	-	307	45,086
Insurance	20,733	3,289	-	14	-	(14)	24,022
Capital markets revenue	-	-	-	-	20,256	-	20,256
Sundry	24	5	2,902	2,672	2,018	(2,712)	4,909
Total revenue from contracts with customers	87,084	79,246	47,032	212,186	22,274	(6,216)	441,606
Other non-contract fee income	5,337	3,703	38,870	(30)	3	1,350	49,233
Total other income	$ 92,421	$ 82,949	$ 85,902	$ 212,156	$ 22,277	$ (4,866)	$ 490,839

30 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.
- **ATB Wealth** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, investment advice, and private banking.
- **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, and intercompany eliminations, 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. Provision for loan losses are allocated based on the loans the area of expertise has issued, and is determined based on the methodology outlined in notes 2 and 10.

Direct expenses are attributed between areas of expertise as incurred. Certain indirect expenses are allocated to ATB Wealth on the basis of service-level agreements. Other indirect costs are allocated between the reporting segments using indirect allocation methods incorporating financial and activity-based cost drivers. 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	ATB Wealth[1]	AltaCorp Capital Inc.	Strategic service units	Total
March 31, 2019							
Net interest income	**$ 442,268**	**$ 335,756**	**$ 338,066**	**$ 16,179**	**$ 511**	**$ 59,020**	**$ 1,191,800**
Other income (loss)	**92,421**	**82,949**	**85,902**	**212,156**	**22,277**	**(4,866)**	**490,839**
Total operating revenue	**534,689**	**418,705**	**423,968**	**228,335**	**22,788**	**54,154**	**1,682,639**
Provision for loan losses	**46,818**	**148,307**	**138,675**	**4,345**	**-**	**-**	**338,145**
Non-interest expenses[2]	**502,937**	**270,597**	**137,161**	**206,810**	**22,230**	**24,435**	**1,164,170**
(Loss) income before payment in lieu of tax	**(15,066)**	**(199)**	**148,132**	**17,180**	**558**	**29,719**	**180,324**
Payment in lieu of tax	**-**	**-**	**-**	**12,724**	**17**	**28,888**	**41,629**
Net (loss) income	**$ (15,066)**	**$ (199)**	**$ 148,132**	**$ 4,456**	**$ 541**	**$ 831**	**$ 138,695**
Total assets	**$ 23,344,544**	**$ 7,774,939**	**$ 14,036,096**	**$ 994,842**	**$ 42,334**	**$ 8,151,396**	**$ 54,344,151**
Total liabilities	**$ 12,845,125**	**$ 9,133,732**	**$ 10,741,203**	**$ 1,015,807**	**$ 34,182**	**$ 16,929,985**	**$ 50,700,034**
March 31, 2018							
Net interest income	$ 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[2]	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	$ 22,027,241	$ 7,453,391	$ 11,963,893	$ 140,817	$ 28,537	$ 10,279,212	$ 51,893,091
Total liabilities	$ 12,170,992	$ 9,041,412	$ 9,210,721	$ 102,970	$ 21,131	$ 18,066,709	$ 48,613,935

[1] Effective September 2018, ATB Wealth includes ATB Investor Services and Alberta Private Client (APC). Results for the prior year were not restated to include APC. Previously APC was reported under RFS.
[2] Certain costs are allocated from the strategic service units to the areas of expertise. The allocation method is revised annually and creates fluctuations in ATB's segmented results.

31 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

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of ATB Insurance Advisors Inc.

Report on the Financial Statements

Opinion
I have audited the financial statements of ATB Insurance Advisors Inc., which comprise the statement of financial position as at March 31, 2019, and the statements of operations and comprehensive income, changes in deficiency and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATB Insurance Advisors Inc. as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Other information
The financial statements of ATB Insurance Advisors Inc. are included in the Annual Report of the Ministry of Treasury Board and Finance that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the Annual Report of the Ministry of Treasury Board and Finance, but does not include the financial statements and my auditor's report thereon. The Annual Report of the Ministry of Treasury Board and Finance is expected to be made available to me after the date of this auditor's report.

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

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

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

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing ATB Insurance Advisors Inc.'s financial reporting process.

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

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

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

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

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

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

May 29, 2019
Edmonton, Alberta

ATB Investor Services™

ATB Insurance Advisors Inc.
Statement of Financial Position
As at March 31, 2019 ($ thousands)

	March 31, 2019 $	March 31, 2018 $
ASSETS		
Current assets		
Cash	59	45
Accounts receivable	48	44
Due from affiliates (note 5)	11	-
	118	89
Non-current assets		
Intangible assets (note 7)	176	161
	294	250
LIABILITIES		
Current liabilities		
Accrued liabilities	79	35
Contract liabilities (note 14 (ii))	28	40
Incentive and other compensation payable (note 12)	6	8
Due to affiliates (note 5)	-	17
Due to ATB (note 6)	4,699	4,868
	4,812	4,968
Long-term liabilities		
Accrued liabilities	13	5
Contract liabilities (note 14 (ii))	87	14
	4,912	4,987
SHAREHOLDER DEFICIENCY		
Share capital (note 8)	5	5
Deficit	(4,623)	(4,742)
	(4,618)	(4,737)
	294	250

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

Approved by the Board of Directors

Original signed by
Director

Original signed by
Chief Financial Officer

ATB Investor Services™

ATB Insurance Advisors Inc.

Statement of Changes in Deficiency

For the year ended March 31, 2019 ($ thousands, except for shares)

	Class A Common Shares #		Share Capital $	Deficit $	Shareholder Deficiency $
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)
Balance at March 31, 2018	100		5	(4,742)	(4,737)
Change in accounting policy (note 4)	-		-	(2)	(2)
Correction of errors (note 16)	-		-	34	34
Restated total deficiency at beginning of year	100		5	(4,710)	(4,705)
Net income and comprehensive income	-		-	87	87
Balance at March 31, 2019	100	-	5	(4,623)	(4,618)

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

ATB Insurance Advisors Inc.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2019 ($ thousands)

	March 31, 2019 $	March 31, 2018 $
Revenue (note 14)		
Insurance commissions	623	865
Administration and selling expenses		
Banking and interest charges	177	150
General and administrative expenses	87	76
Salaries and employee benefits	75	108
Intercorporate management fees (note 10)	74	126
Referral fees paid to affiliates and ATB	49	86
Amortization expense (note 7)	21	19
Professional fees	21	2
Incentive compensation expenses	6	8
IT Infrastructure and services	-	2
	510	577
Net income before payment in lieu of tax	113	288
Payment in lieu of tax (PILOT) (note 6(ii))	26	66
Net income and comprehensive income	87	222

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

ATB Investor Services™

ATB Insurance Advisors Inc.
Statement of Cash Flows
For the year ended March 31, 2019 ($ thousands)

Cash provided by (used in)	**March 31, 2019 $**	**March 31, 2018 $**
Operating activities		
Net income	87	222
Items not affecting cash		
Amortization expense	21	19
Net operating activities	108	241
Net change in non-cash working capital items		
Accounts receivable	3	(12)
Accrued liabilities	52	(31)
Incentive and other compensation payable	(2)	3
Contract liabilities	86	1
Due to affiliates	(28)	(7)
Due to ATB - operating activities	(41)	7
Change in non-cash working capital items	70	(39)
Net cash from operating activities	178	202
Investing activities		
Intangible assets	(36)	(5)
Net cash used in investing activities	(36)	(5)
Financing activities		
Due to ATB	(128)	(187)
Net cash used in financing activities	(128)	(187)
Net change in cash	14	10
Cash at beginning of year	45	35
Cash at end of year	59	45
Supplementary information		
Interest paid	177	150
PILOT paid	66	59

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

ATB Insurance Advisors Inc.

Notes to the Financial Statements

For the year ended March 31, 2019 ($ thousands)

1. Nature of Operations and Economic Dependence

ATB Insurance Advisors Inc. ("ATBIA" or the "Company") is a wholly-owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM"), ATB Securities Inc. ("ATBSI"), and AltaCorp Capital Inc. ("AltaCorp"). ATBIA, ATBIM, and ATBSI operate under the trademark ATB Wealth, which also includes certain private banking operations within ATB. ATBIA, ATBIM and ATBSI previously operated 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 (note 6(i)).

ATBIA has entered into a direct contractual relationship with an insurance distributor and broker (the managing general agent, or "MGA") to provide sales management and brokerage operation services, and generally oversee ATBIA insurance operations. ATBIA also engages individual licensed insurance specialists ("ATBIA Advisors") to conduct the insurance business managed by the MGA. The ATBIA Advisors, who are independent contractors, are responsible for determining the manner and means by which they provide services to ATBIA clients. ATBIA must also enter into separate contractual relationships with insurance carriers that offer policies. These agreements include reference to ATBIA's relationship with the MGA.

The agreement between ATBIA and MGA was amended effective March 1, 2018. The amendments changed the allocation of commission compensation received from insurance carriers between the MGA, ATBIA and the ATBIA Advisors.

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 29, 2019.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2019.

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 profit and loss.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenue and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIA's critical accounting estimates under IFRS:

i) Amortization of Intangible Assets

Intangible assets are amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience, and take into consideration existing long-term agreements and contracts. While these useful life estimates are reviewed on a regular basis and amortization calculations revised accordingly, actual lives may differ from the estimates.

ii) Contract Liability Related to the Lapse of Insurance Policies

Insurance policies that have been in force for less than two years are typically subject to a chargeback by the insurer if a policy lapses. The provision for lapse is estimated using historical internal lapse rates.

As at March 31, 2019, Management had provided an allowance for lapsed insurance policies of $25 (March 31, 2018 - $54) representing 2.90% to 6.30% (depending on the type of policy) of insurance commissions earned during the year relating to the placement of new policies (March 31, 2018 - 3.00% to 7.75%). This provision is recorded as a reduction to insurance commission revenue and is presented as a contract liability 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. See note 2 g) and note 14 ii).

iii) Contract Liability Related to Unsatisfied Performance Obligations to Customers

In its contracts with customers, ATBIA has an ongoing performance obligation to service policyholders. Under the new agreement with the MGA effective March 1, 2018, ATBIA receives all compensation from insurance carriers upfront, so Management must estimate how much of this compensation to defer and recognize as revenue in future periods as these performance obligations are satisfied over time. See note 2 g) and note 14 ii).

During the year ended March 31, 2019, Management recorded deferred revenue of $94 associated with new policies placed under the new agreement with the MGA, and brought $4 of this total back into revenue. With respect to estimated future performance obligations, as at March 31, 2019, the Company has recorded $9 (March 31, 2018 - $nil) within current contract liabilities and $81 (March 31, 2018 - $nil) within long-term contract liabilities.

c. Cash

Cash consists of cash on deposit held with ATB.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

d. Intangible Assets

Intangible assets represent the purchase by the Company of the insurance businesses of ATBIA Advisors when arrangements with those advisors cease. After initial recognition, these purchases are carried at cost less accumulated amortization, and less provisions for impairment, if any. Balances are amortized on a straight-line basis over their estimated useful lives of 10 years.

A partial, upfront payment is made to the ATBIA Advisor, with the remaining amount payable two years later and recorded initially as a long-term accrued liability on the statement of financial position.

e. Impairment of Intangible Assets

Intangible assets are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

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 assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company has not recognized any provisions at March 31, 2019 (March 31, 2018 - $nil).

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIA, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require an outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

g. Revenue Recognition

The Company has adopted for the first time IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as described in note 4(i). IFRS 15 replaces IAS 18 *Revenue*, which covers contracts for goods and services, and IAS 11 *Construction Contracts*. The Company elected to apply the standard on a modified retrospective basis, whereby the cumulative effect of adoption is applied to the period beginning April 1, 2018.

IFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The new guidance includes a five-step recognition and measurement framework that ATBIA follows in order to determine when to recognize revenue.

i. Identify the contract(s) with a customer
ii. Identify the performance obligation(s) in the contract
iii. Determine the transaction price
iv. Allocate the transaction price
v. Recognize revenue when (or as) ATBIA satisfies a performance obligation

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

ATBIA acts as an agent on behalf of both the insurance carriers and the MGA. As agents of the insurance carriers, it is the MGA's and ATBIA's performance obligation to arrange for other parties to provide services to policyholders who are the customers of the insurance carriers. These services may be provided directly by either the MGA, ATBIA or the ATBIA Advisors.

Management identified two primary, broadly focused, performance obligations to the customers of the insurance carriers, which are either explicitly stated in its contracts with the insurance carriers, the MGA and the ATBIA Advisors, or are implied by industry practice and the expectations of customers.

1. To sell insurance and financial services products to customers, by recruiting, training and managing a team of licensed insurance agents. ATBIA satisfies this performance obligation primarily by arranging for the services to be provided by the MGA and/or the ATBIA Advisors.

2. To provide ongoing service to policyholders while the policy remains in force. ATBIA satisfies this performance obligation primarily by arranging for the services to be provided by the ATBIA Advisors, but also satisfies this performance obligation by providing branding, technology and infrastructure support to the ATBIA Advisors or to the MGA as it manages the ATBIA Advisors. In certain instances, services originally provided directly by the ATBIA Advisors may be subsequently provided directly by ATBIA, if the original ATBIA Advisor exits its contract with ATBIA.

The application of IFRS 15 allows for a practical expedient that permits individual contracts with customers that have similar characteristics to be managed on a portfolio basis, if the result would not differ materially from applying the standard to individual contracts within the portfolio. Management identified two portfolios of contract types with customers. For one portfolio, the obligation to provide ongoing service to policyholders is assigned primarily to the ATBIA Advisor; for the other portfolio, the obligation to provide ongoing service to policyholders has been assumed by ATBIA directly, where the original ATBIA Advisor has exited its contract with ATBIA. Management determined that this distinction required the latter portfolio to be accounted for as a separate portfolio of contracts because distinct services are added to ATBIA's performance obligation and because its share of the allocation of transaction price increases (as specified in the contractual arrangements with the MGA and the ATBIA Advisors).

Portfolio 1: New policies where the ATBIA Advisor directly services the policyholder

The total transaction price for these contracts comprises commission compensation received from insurance carriers, which includes first year compensation and monthly or annual renewal commissions starting in the second year of a policy's term. First year compensation comprises a significant portion of the total transaction price over the term of the insurance policy. First year compensation is receivable when the policy has been successfully placed with the insurance carrier and the first year's premiums haven been paid by the policyholder. Renewal commissions are receivable as subsequent year's premiums are received from the policyholder.

ATBIA recognizes new policy revenue at a point in time when first year compensation becomes receivable, which coincides with ATBIA satisfying the first performance obligation. ATBIA recognizes renewal commission revenue over time in each period in which it makes ongoing services available to policyholders. With respect to the second performance obligation, the various activities that ATBIA or the ATBIA Advisors may perform in the ongoing service of policyholders could be performed at any time over the term of the policy.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

For policies placed prior to March 1, 2018 (the effective date of ATBIA's revised agreement with the MGA and the ATBIA Advisors), ATBIA receives a fixed percentage of total first year compensation payable under contracts with insurance carriers to all of ATBIA, the MGA and the ATBIA Advisors, and the same percentage of ongoing renewal commissions. ATBIA allocates its portion of first year compensation to the satisfaction of the first performance obligation and its portion of ongoing renewal commissions to each period's satisfaction of the second performance obligation.

For policies placed after March 1, 2018, ATBIA receives only a percentage of first year compensation. In order to allocate a portion of total compensation received to each subsequent period's satisfaction of the second performance obligation, Management defers recognition of a portion of the first year compensation received. This portion is derived from a series of significant estimates and judgments made by Management, based on ongoing analysis of its portfolio of contracts with customers. These significant estimates and judgments include:

Significant estimated factors	Year ended March 31, 2019	Year ended March 31, 2018
Average first year compensation as a percent of annual policy premium	40%	n/a
Average renewal commission as percent of annual policy premium	4.00%	n/a
Portion of first year compensation received to be recognized annually for satisfaction of second performance obligation	2.5%	n/a
Average term of contract	10 years	n/a
Percentage of first year compensation to defer for future periods' satisfaction of second performance obligation	25%	n/a

The deferral of first year compensation and the subsequent satisfaction of future years' performance obligations results in a contract liability (note 14 ii)).

Portfolio 2: Existing policies where ATBIA directly services the policyholder

The total transaction price for these contracts comprises the incremental portion of the renewal commission that is receivable by ATBIA, based on the terms in the agreement between ATBIA, the MGA and the ATBIA Advisors. This portion increased as a result of the amendment to the agreement effective March 1, 2018.

ATBIA recognizes renewal commission revenue from these contracts over time in each period in which it makes ongoing services available to policyholders. As such, ATBIA may recognize revenue from the same policy under both contract portfolio types.

Variable consideration

The compensation ATBIA receives is variable in three aspects.

First, ATBIA may have to return all or a portion of first year compensation if the customer cancels the policy or allows it to lapse by not paying premiums. As a result, a portion of first year compensation received is deferred until this right of the insurance carriers to impose a chargeback of commissions paid expires. This deferral of first year compensation results in a contract liability (note 14 ii)). Revenue is subsequently recognized on a straight-line basis over the subsequent 24-month period. This portion of deferred revenue is derived from a series of significant estimates and judgments made by Management, based on ongoing analysis of its portfolio of contracts with customers. These significant estimates and judgments include:

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Significant estimated factors	Year ended March 31, 2019	Year ended March 31, 2018
Average duration of chargeback period	2 years	2 years
Average lapse rate (chargeback as a percent of total first year compensation received, depending on the policy type)	2.90% to 6.30%	3.00% to 7.75%

Second, ATBIA will not receive any share of ongoing renewal commissions should the customer cancel the policy or allow it to lapse.

Third, ATBIA receives additional revenue from the MGA and certain insurance carriers with respect to the sale of new policies when certain thresholds for aggregate annual production by the ATBIA Advisors are exceeded. This compensation is recognized as received, which is the point in time when the thresholds have been met. As such, this compensation is excluded from deferrals.

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 non-union employees with a registered defined contribution pension plan. Contributions to the plan are expensed as related salaries or incentive compensation are earned, and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ii) Short-Term Employee Benefits

Short-term employee benefits, such as paid absences and other benefits including any related payroll taxes, are accounted for on an accrual basis over the period in which the employees provide the related services, and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump-sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Amounts payable under variable compensation plans at the end of the year are recorded in incentive and other compensation payable.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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

The IASB issued IFRS 9 *Financial Instruments* (“IFRS 9”) to replace IAS 39 *Financial Instruments: Recognition and Measurements* (“IAS 39”). IFRS 9 provides a single model for the classification and measurement of financial instruments based on the context of the business model and the contractual cash flow characteristics of an entity’s financial instruments. IFRS 9 also establishes a new impairment model based on expected losses, rather than incurred losses. The Company adopted IFRS 9 effective April 1, 2018 with no restatement of the comparative period.

Recognition

No changes to the Company’s policies for recognition or derecognition of financial instruments were required by IFRS 9. All financial assets and financial liabilities are initially recognized on the trade date, which is the date that ATBIA becomes a party to the contractual provisions of the financial instrument. ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired, or when the Company transfers the rights to receive the contractual cash flows in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. ATBIA derecognizes a financial liability when its contractual obligations are discharged, or when the contract is cancelled or has expired.

Classification and Measurement - Financial Assets

Under IFRS 9, financial assets are classified and measured at amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income (“FVOCI”). Classification is based on the Company’s business model for managing the specified financial assets, and whether the contractual cash flows of the specified financial asset represents solely payments and interest on the principal amount outstanding (the “SPPI test”). Principal is defined as the fair value of the asset at initial recognition and may change over the asset’s life. Interest payments can include consideration for the time value of money as well as for credit and liquidity risks.

Financial assets are only reclassified if a significant change in the asset’s business model occurs subsequent to initial recognition.

Classifications existing under IAS 39 that no longer exist under IFRS 9 include loans and receivables, held-to-maturity, and available-for-sale.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The classifications of the financial assets of ATBIA under IFRS 9 and previously under IAS 39 are as follows:

Financial Assets	**Classification under IFRS 9**	**Classification under IAS 39**
• Cash	Amortized cost	Loans and receivables
• Accounts receivable	Amortized cost	Loans and receivables
• Due from affiliates	Amortized cost	Loans and receivables

Financial assets held primarily to collect contractual cash flows comprised of principal and interest are classified as amortized cost. These assets are initially recognized at fair value – which is the cash consideration to originate or purchase the asset, including any transaction costs – and subsequently measured at amortized cost using the effective interest rate method.

For financial assets classified as amortized cost with an expected term of less than one year that do not have a significant financing component, IFRS 9 permits a practical expedient permitting initial measurement at the transaction price, which results in the recognition of no interest income under the effective interest rate method.

Classification and Measurement - Financial Liabilities

Financial liabilities are classified and measured at either FVTPL or amortized cost. Financial liabilities not classified as FVTPL are measured at amortized cost. Financial liabilities are never reclassified.

The classifications of the financial liabilities of ATBIA under IFRS 9 and previously under IAS 39 are as follows:

Financial Liabilities	**Classification under IFRS 9**	**Classification under IAS 39**
• Accrued liabilities	Amortized cost	Other financial liabilities
• Incentive and other compensation payable	Amortized cost	Other financial liabilities
• Due to affiliates	Amortized cost	Other financial liabilities
• Due to ATB	Amortized cost	Other financial liabilities

For all financial liabilities classified as amortized cost, ATBIA initially measures all amounts at the transaction price, which results in the recognition no interest expense under the effective interest rate method. As per note 6, amounts due to ATB are due on demand, with no fixed terms for repayment. Interest is paid monthly on the outstanding balance less PILOT, and the outstanding balance is paid down if there is excess operating cash.

Impairment of Financial Assets

IFRS 9 establishes a new expected credit loss (“ECL”) model for the recognition and measurement of impairments of financial assets measured at amortized cost. The ECL model involves a staged approach, whereby financial assets move through three stages as their credit quality changes. ECL are the weighted-average credits losses with the probability of default as the weight.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The stage of the ECL model dictates how ATBIA measures impairment losses:

- Stage 1: On initial recognition, for financial assets measured at amortized cost where there is not a significant financing component, ATBIA applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable. For all other financial assets measured at amortized cost, ATBIA determines the impairment provision on a 12-month ECL basis. For these calculations, the Company uses a historical-based provision matrix adjusted for forward-looking factors.

- Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment, and where the overall assessment of credit risk at the reporting date is not still low, ATBIA records an estimate of lifetime ECL.

- Stage 3: For financial assets that have objective evidence of impairment at the reporting date, ATBIA records an estimate of lifetime ECL and recognizes interest revenue on the carrying value of the asset net of the credit allowance.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced, and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBIA may measure impairment on the basis of an instrument's fair value using an observable market price.

In adopting IFRS 9, there were no material adjustments to provisions for losses determined under IAS 39 and no amounts have been restated. As at March 31, 2019 and March 31, 2018, none of the Company's financial assets were in stages 2 or 3 of the impairment model, and the Company applied the simplified approach to all financial assets in Stage 1.

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, due from affiliates, accrued liabilities, incentive and other compensation payable, due to affiliates and due to ATB. These fair value estimates are classified as level 2 in the fair value hierarchy 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.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

ATBIA has no financial instruments that are recorded at fair value as at March 31, 2019 and 2018.

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 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 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.

As at March 31, 2019, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), would be approximately $47 (March 31, 2018 - $48).

Price risk: ATBIA is not exposed to financial market pricing risk as no financial instruments held by the Company will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that a counterparty to a financial asset will default resulting in a financial loss to ATBIA. ATBIA is exposed to credit risk through its cash, accounts receivable and due from affiliates balances.

The application of the ECL model (note 2k) to the Company's financial assets is described below:

- Cash balances are subject to the impairment requirements of IFRS 9; however, the identified impairment losses were immaterial. All cash is on deposit with ATB, an Alberta Crown Agent, from which Management believes the probability of default is remote.

- Accounts receivable are due from insurance carriers with which ATBIA places new insurance policies, or due from the MGA for performance bonuses. Amounts due from insurance carriers are paid promptly, unless the amounts are negligible or the insurance carrier is owed by ATBIA for a policy chargeback. Given the low probability of default and a history of negligible actual losses, the provision for ECL for accounts receivable at March 31, 2019 was $nil (March 31, 2018 - $nil).

- Amounts due from affiliates are either from ATBIM or ATBSI, both of which are profitable companies with management common to ATBIA. Given the low probability of default, combined with the low exposure to actual losses should default occur, the provision for ECL for amounts due from affiliates at March 31, 2019 was $nil (March 31, 2018 - $nil).

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The Company's maximum credit exposure is $118 (March 31, 2018 - $89) which is the sum of cash, accounts receivable and due from affiliates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligations and determining whether additional funding is required through its credit facility or parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk that are considered short-term (due on demand or within 30 days), include accrued liabilities, incentive compensation payable, due to affiliates, and due to ATB.

4. Changes in Accounting Policies

i) Accounting Standards Adopted

IFRS 15 *Revenue from Contracts with Customers*

The Company elected to apply the standard on a modified retrospective basis, whereby the cumulative effect of adoption is applied to the period beginning April 1, 2018. IFRS 15 was adopted without using the practical expedient for completed contracts and contract modifications.

In adopting IFRS 15, there were significant impacts on the Company's revenue recognition policies for compensation received under the new agreement between ATBIA and its MGA that became effective March 1, 2018 (note 2 g)). An adjustment decreasing retained earnings by $2 and increasing contract liabilities by $2 was made effective April 1, 2018.

IFRS 9 *Financial Instruments*

The Company has adopted for the first time IFRS 9 to replace IAS 39. IFRS 9 provides a single model for the classification and measurement of financial instruments based on the context of the business model and the contractual cash flow characteristics of an entity's financial instruments. IFRS 9 also establishes a new impairment model based on expected losses, rather than incurred losses.

The Company elected to apply the standard with retroactive adoption to April 1, 2018. There were no changes required to amounts previously presented. Changes to accounting policies are described in note 2 k).

ii) New Accounting Standards Not Yet Adopted

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. As ATBIA has no lease commitments, Management does not expect this standard will have an impact on the Company's financial statements.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

5. Due from (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 from (to) affiliates are as follows:

	March 31, 2019	March 31, 2018
	$	$
Due from (to) ATBSI	11	(17)

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 past operations. ATBIA is reliant on ATB not calling these advances.

The amounts due to ATB arising from these transactions are as follows:

	March 31, 2019	March 31, 2018
	$	$
Due to ATB	4,699	4,868

The net amount due to ATB, less PILOT, is subject to monthly interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2019 was 3.95% (March 31, 2018 – 3.45%).

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, 2019, ATBIA accrued and incurred an expense of $26 (March 31, 2018 - $66) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2019. PILOT is not charged against adjustments to deficit.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

7. Intangible Assets

Intangible assets consist exclusively of purchases of ATBIA Advisors' businesses who have ended their relationship with ATBIA.

	Intangible Assets $
Cost	
Balance at April 1, 2017	193
Additions	5
Balance at March 31, 2018	198
Balance at April 1, 2018	198
Additions	36
Balance at March 31, 2019	234
Depreciation	
Balance at April 1, 2017	18
Amortization for the year	19
Balance at March 31, 2018	37
Balance at April 1, 2018	37
Amortization for the year	21
Balance at March 31, 2019	58
Carrying Amounts	
Balance at March 31, 2018	161
Balance at March 31, 2019	176

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2019 was $21 (March 31, 2018 - $19). There were no impairments recognized during the year ended March 31, 2019 (March 31, 2018 - $nil).

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

8. Share Capital

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value
Unlimited number of Class B non-voting, common shares without nominal or par value
Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2019	March 31, 2018
Class A common shares #	100	100
Share capital ($ in thousands)	5	5

9. Capital Risk Management and Restrictions

ATBIA's objectives in managing its capital, which is defined as shareholder deficiency and amounts due to ATB, are:

- to safeguard ATBIA's ability to operate as a going concern; and
- to provide financial capacity and flexibility to meet its strategic objectives.

The capital structure of ATBIA is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, Management reviews the financial position of ATBIA on a monthly and cumulative basis. If capital decreases, additional contributions or loans from ATB may be requested. Additionally, repayment of amounts due to ATB is determined based on maintaining optimal levels of capital in the business.

ATBIA works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIA's capital management objectives have not changed over the periods presented.

10. Intercorporate Management Fees

An intercorporate management fee ("management fee") exists in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. Effective July 1, 2018, with the transition of the private banking business within ATB ("Private Banking") to ATB Wealth, the management fee was extended to include shared costs with Private Banking. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM, ATBIA and Private Banking according to the proportion of total combined revenue that each generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

11. Related Party Transactions

In the normal course of operations, ATBIA pays referral fees to ATBSI and ATB. ATB also charges ATBIA for various administrative services, as well as charging interest on amounts owing to ATB (note 6(i)). ATBIA does not transact with AltaCorp. A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2019	March 31, 2018
	Administrative and selling and other expenses		$	$
ATBSI	Account administration fees	Salaries and employee benefits	-	1
ATBSI	Referral fees	Referral fees paid to affiliates and ATB	34	82
ATBSI	Management fees	Intercorporate management fees	74	126
ATB	Interest expense and standby fees	Banking and interest charges	177	150
ATB	Rent	General and administrative expenses	27	39
ATB	Referral fees	Referral fees paid to affiliates and ATB	15	4
			327	**402**

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2018 (for the year ended March 31, 2019) and April 1, 2017 (for the year ended March 31, 2018).

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 Wealth brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBIA. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ 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 ATB Wealth executives); and,
- cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is a risk, if the valuation decreases, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2019 the liability recorded by ATB with regards to the Achievement Notes owned by the employees of ATBIA, or previously allocated to ATBIA as part of shared management services, is as follows:

	March 31, 2019	March 31, 2018
	$	$
Liability at beginning of year	367	315
New subscriptions	-	8
Redemptions	(5)	-
Appreciation and vesting	34	44
Liability at end of year	**396**	**367**

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, or to an RRSP, RESP, or ATB mortgage. For the year ended March 31, 2019, expenses related to the plan, which are recorded in salaries and employee benefits, were $nil (March 31, 2018 - $nil), as no current employees were eligible to receive benefits under this plan.

ii) Incentive Compensation Plan

As at March 31, 2019, the Company had accrued and expensed $6 (March 31, 2018 - $8) 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, 2018 - $50) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 3.70% at March 31, 2019 (March 31, 2018 – 3.20%). No amounts have been drawn on the facility at March 31, 2019 (March 31, 2018 - $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.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

14. Revenue from Contracts With Customers

i) Disaggregation of Revenue From Contracts with Customers

Nature of revenue	March 31, 2019 $	March 31, 2018 $
New insurance policies	338	552
Performance bonuses	43	64
Ongoing service to policyholders	242	249
	623	**865**

Revenue from commissions related to the placement of new policies and performance bonuses are recognized at a point in time, while revenue from commissions related to the ongoing service to policyholders is recognized over time.

If IFRS 15 had not been adopted effective April 1, 2018, the Company estimates that for the year ended March 31, 2019 that revenue from new insurance policies would have been $428 and revenue from ongoing service to policyholders would have been $238.

ii) Liabilities Related to Contracts With Customers

A contract liability represents the Company’s obligation to provide services to a customer for which the entity has received consideration. As per note 2 g), ATBIA has two types of contract liability: i) Estimate of chargebacks of first year compensation related to lapsed or canceled policies (“Lapse”); and ii) Unsatisfied performance obligations to service policyholders in future years (“Future Services”), which arises only for new policies placed under the new agreement with the MGA that became effective March 1, 2018.

Amounts presented on the statement of financial position as contract liabilities include:

	March 31, 2019		March 1, 2018	
	Lapse	Future Service	Lapse	Future Service
	$	$	$	$
Current	19	9	40	-
Long-term	6	81	14	-
	25	**90**	**54**	**-**

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

iii) Revenue Recognized in Relation to Contract Liabilities

Revenue includes the following amounts recognized that were included in the contract liability balance at the beginning of the year:

	March 31, 2019 $	March 31, 2018 $
Lapse	20	40
Future Service	-	-

iv) Unsatisfied Performance Obligations

The closing balance for the contract liabilities is expected to be recognized into revenue over the following 10 years.

	Lapse $	Future Service $
Fiscal 2020 to 2022 (1 to 3 years)	25	28
Fiscal 2023 to Fiscal 2025 (4 to 6 years)	-	28
Fiscal 2026 to Fiscal 2029 (7 to 10 years)	-	34
Total	**25**	**90**

15. Subsequent Event - Legal Claim

Subsequent to year end on April 16, 2019, ATBIA received a third party claim by one of the Company's insurance carriers. No liability was recognized by ATBIA as at March 31, 2019, as the Company is in the process of evaluating the merits of the claim. As of the date of these financial statements the likelihood of a loss is not determinable.

ATB Insurance Advisors Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

16. Correction of Prior Period Errors

During the year, the Company identified that amounts previously reported for the provision for the lapse of insurance policies was misstated. The Company also determined that prior period revenues were understated, where compensation was paid by insurance carriers to the MGA rather than ATBIA.

The Company has chosen to correct amounts on the statement of financial position effective April 1, 2018, by making an adjustment to opening deficit of $34. The Company determined that the impact of correcting this error retroactive to an earlier date on amounts reported as insurance commission revenue was not material and would not have a significant impact on the interpretation of the financial results or performance of ATBIA.

The entire impact of these corrections was as follows:

	Adjustment effective April 1, 2018
Assets	**$**
Accounts receivable	**7**
Liabilities and Shareholder Deficiency	**$**
Contract liabilities	(27)
Deficit	34
	7

As these adjustments represent non-cash transactions, these amounts are excluded from balances presented in the Statement of Cash Flows section for net change in non-cash working capital items.

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ATB INVESTMENT MANAGEMENT INC.

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General
OF ALBERTA

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

Opinion
I have audited the financial statements of ATB Investment Management Inc., which comprise the statement of financial position as at March 31, 2019 and 2018, and the statements of operations and comprehensive income, changes in equity and cash flows for the years ended March 31, 2019 and 2018, and notes to the financial statements, including a summary of significant accounting policies. 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.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATB Investment Management Inc. as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years ended March 31, 2019 and 2018 in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards, for financial statements delivered by registrants.

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

Emphasis of matter - basis of accounting 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.

Other information
The financial statements of ATB Investment Management Inc. are included in the Annual Report of the Ministry of Treasury Board and Finance that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the Annual Report of the Ministry of Treasury Board and Finance, but does not include the financial statements and my auditor's report thereon. The Annual Report of the Ministry of Treasury Board and Finance is expected to be made available to me after the date of this auditor's report.

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

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

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

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing ATB Investment Management Inc.'s financial reporting process.

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

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

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

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

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

May 29, 2019
Edmonton, Alberta

ATB Investor Services™

ATB Investment Management Inc.

Statement of Financial Position

As at March 31, 2019 ($ thousands)

	March 31, 2019 $	March 31, 2018 $
ASSETS		
Current assets		
Cash	17,611	18,958
Due from related parties (note 5)	12,415	11,707
Client fees receivable	6,849	6,359
Securities owned	22	22
Prepaid expenses	25	357
	36,922	37,403
Non-current assets		
Software and computer equipment (note 8)	1,492	1,419
	38,414	38,822
LIABILITIES		
Current liabilities		
Accrued liabilities	9,796	7,647
Incentive and other compensation payable (note 13)	723	762
Commissions payable	680	633
Due to affiliates (note 6)	845	1,116
Due to ATB (note 7)	9,072	8,362
	21,116	18,520
Long-term liabilities		
Incentive and other compensation payable (note 13)	285	227
	21,401	18,747
SHAREHOLDER EQUITY		
Share capital (note 9)	5	5
Retained earnings	17,008	20,070
	17,013	20,075
	38,414	38,822

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

Approved by the Board of Directors

Original signed by
Director

Original signed by
Chief Financial Officer

ATB Investor Services™

ATB Investment Management Inc.

Statement of Change in Equity

For the year ended March 31, 2019 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholder Equity $
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
Balance at March 31, 2018	100	5	20,070	20,075
Change in accounting policy (note 4)	-	-	15	15
Restated total equity at beginning of year	100	5	20,085	20,090
Dividends	-	-	(33,000)	(33,000)
Net income and comprehensive income	-	-	29,923	29,923
Balance at March 31, 2019	100	5	17,008	17,013

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

ATB Investor Services™

ATB Investment Management Inc.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2019 ($ thousands)

	March 31, 2019	March 31, 2018
Revenue (note 14)	**$**	**$**
Fund management fees	143,409	134,226
Fee based revenue	18,499	16,824
Interest income	525	314
GIC commissions	188	116
Securities commissions	62	96
Trailer fees and mutual fund commissions	9	21
Other contract revenue	-	1
Other income (losses)	(17)	(11)
	162,675	151,587
Administration and selling expenses		
Trailing commissions expense	61,715	61,464
Third party fund manager fees	28,030	25,770
Intercorporate management fees (note 11)	16,758	13,126
Salaries and employee benefits	5,766	5,198
Professional fees	4,224	3,946
Commission expenses	3,229	2,886
General and administrative expenses	1,829	1,533
Incentive compensation expenses (note 13)	1,035	1,093
Amortization expense (note 8)	496	326
IT infrastructure and services	467	785
Clearing and processing	247	212
Banking and interest charges	18	15
	123,814	116,354
Net income before payment in lieu of tax	38,861	35,233
Payment in lieu of tax (PILOT) (note 7(ii))	8,938	8,104
Net income and comprehensive income	29,923	27,129

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

Certain comparative figures have been reclassified (note 16)

ATB Investor Services™

ATB Investment Management Inc.

Statement of Cash Flows

For the year ended March 31, 2019 ($ thousands)

Cash provided by (used in)	March 31, 2019 $	March 31, 2018 $
Operating activities		
Net income	29,923	27,129
Items not affecting cash		
Amortization and depreciation expense	496	326
Net operating activities	30,419	27,455
Net change in non-cash working capital items		
Due from related parties	(708)	(664)
Client fees receivable	(490)	(1,022)
Prepaid expenses	332	(19)
Accrued liabilities	2,149	747
Incentive and other compensation payable	19	373
Commissions payable	47	111
Due to affiliates	(256)	426
Due to ATB	710	803
Change in non-cash working capital items	1,803	755
Net cash from operating activities	32,222	28,210
Investing activities		
Securities	-	643
Software and computer equipment	(569)	(874)
Net cash used in investing activities	(569)	(231)
Financing activities		
Dividends	(33,000)	(23,000)
Net cash used in financing activities	(33,000)	(23,000)
Net change in cash	(1,347)	4,979
Cash at beginning of year	18,958	13,979
Cash at end of year	17,611	18,958
Supplementary information		
Interest paid	18	15
Interest received	525	314
PILOT paid	8,104	7,061

The accompanying notes are an integral part of these financial statements.
Certain comparative figures have been reclassified (note 16)

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

1. Nature of Operations

ATB Investment Management Inc. ("ATBIM" or the "Company") is a wholly-owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Securities Inc. ("ATBSI"), ATB Insurance Advisors Inc. ("ATBIA") and AltaCorp Capital Inc. ("AltaCorp"). ATBIM, ATBSI, and ATBIA operate under the trademark ATB Wealth, which also includes certain private banking operations within ATB. ATBIM, ATBSI and ATBIA previously operated under the trademark ATB Investor Services ("ATBIS").

ATBIM was established to facilitate managing a family of mutual fund portfolios and to provide portfolio management services to high net worth clientele. ATBIM is registered as a Portfolio Manager and Investment Fund Manager with the Alberta Securities Commission ("ASC"). ATBIM is the fund manager for the Compass Portfolio Series of mutual funds and the ATBIS Pooled Fund Series of mutual funds (collectively, "ATBIS Funds"). As a provincial Crown corporation, ATBIM is exempt from income tax; however, it is subject to payment in lieu of tax ("PILOT") as described in note 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 29, 2019.

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, 2019 and 2018.

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 profit and loss.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of 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:

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 and estimates about the possibility of employee termination or forfeiture, both which change the amount of the award. The 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 is 3 years.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Depreciation rates, methods and the residual values underlying the calculation of depreciation 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 ranges from 3 to 5 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBIM, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

g. Impairment of Computer Equipment and Software

Computer equipment and software 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, 2019 or 2018.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

h. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a 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 assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company has not recognized any provisions at March 31, 2019 (March 31, 2018 - $nil).

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIM, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require an outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

i. Foreign Exchange

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

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

unrealized gains and losses arising from these translations are included in other income (losses) in the statement of operations and comprehensive income.

j. Revenue Recognition

The Company has adopted for the first time IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as described in note 4(i).

IFRS 15 replaces IAS 18 *Revenue*, which covers contracts for goods and services, and IAS 11 *Construction Contracts*. The Company elected to apply the standard on a modified retrospective basis, whereby the cumulative effect of adoption is applied to the period beginning April 1, 2018.

Interest income is not in scope of IFRS 15 and is recorded on an accrual basis.

IFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The new guidance includes a five-step recognition and measurement framework that ATBIM follows in order to determine when to recognize revenue.

i. Identify the contract(s) with a customer
ii. Identify the performance obligation(s) in the contract
iii. Determine the transaction price
iv. Allocate the transaction price
v. Recognize revenue when (or as) ATBIM satisfies a performance obligation

ATBIM has the following types of revenue from contracts with customers (see also note 14):

Fund Management Fees from ATBIS Funds

Depending on the series of units of held by investors, the prospectus of the ATBIS Funds permits ATBIM to charge fund management fees in consideration for providing, or arranging for, the provision of investment decisions, management of the ATBIS Funds, distributions and sales of the units of the ATBIS Funds, as well as covering the fees, costs and expenses related to third-party advisors who may be retained to make recommendations to ATBIM. These activities are considered to be a single performance obligation. The fund management fee charged by ATBIM is prescribed in the prospectus and based on average daily net asset value ("NAV") of units held by all investors of the particular mutual fund series. ATBIM recognizes these fund management fees over time, records this revenue each month and generally collects from ATBIS Funds in the following month.

Fund Management Fees from Individual Investors and ATBSI

Depending on the series of units held by investors, the prospectus of the ATBIS Funds permit ATBIM to charge fund management fees to investors directly for the same services described above, where the customer in the contract is an ATBIM client rather than ATBIS Funds. Investors include ATBIM clients and ATBSI clients that are also employees of companies affiliated with ATBIM. The fund management fee charged by ATBIM is negotiated between the investor and ATBIM, and based on average daily NAV of units held by the individual client. ATBIM recognizes these fund management fees over time and records this revenue each month. ATBIM collects directly from client accounts every quarter, or when a client account is closed. ATBIM collects from ATBSI every month.

Employees of companies affiliated with ATBIM also hold these series of units as clients of ATBSI. In this instance, ATBIM charges the fund management fee permitted by the prospectus of ATBIS Funds to ATBSI directly every month.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Advisory Fees from ATBIM clients

ATBIM earns fee based revenues from its clients for acting as a portfolio manager with full investment discretion. The fee structure charged by ATBIM for these services is negotiated between the client and ATBIM and based on the average daily market value of client assets under administration with ATBIM. ATBIM recognizes fee based revenue over time, records this revenue each month and collects directly from client accounts every quarter, or when clients transfer assets to another financial institution.

Other Contract Revenue - Other Fund Management Fees, Trailer Fees and Commissions

ATBIM earns various other fees and commissions from i) third-party mutual fund companies for clients invested with those companies; ii) ATB for clients invested in ATB GICs; and iii) clients for trading certain securities. Depending on the contracts with these customers and the type of product the client is invested in, revenue can be earned either at a point in time or over time.

k. Employee 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 related salaries or incentive compensation are earned, and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ii) Notional Supplemental Plan

ATBIM has a notional supplemental plan (NSP) that provides additional retirement benefits to eligible employees that cannot be provided within the defined contribution plan due to taxation limitations on contributions to a registered defined contribution pension plan.

The NSP account is an unfunded account established by ATB on behalf of each eligible employee, which is comprised of notional contributions, notional interest and notional gains and losses. Notional contributions are amounts that would have been made pursuant to the defined contribution plan were taxation limits not imposed. Notional contributions include both employee and employer contributions. Notional interest is accrued on notional contributions at a rate for customer deposits with ATB in the calendar year of contribution until the end of the year, at which point the combined amount is notionally invested. The ongoing value of the notional investments are indexed to the NAV of one of the Compass Portfolio Series of mutual funds, resulting in notional gains and losses, which cease to accrue at the end of the month in which the employee retires or leaves the Company.

The Company is not required to secure the NSP benefits, or to establish or contribute to a funding arrangement of any kind with respect to the provision of benefits payable. The Company may establish, but has no obligation to establish, a special purpose reserve in respect of the liabilities under the NSP.

The Company anticipates that the NSP will continue indefinitely; however, the Company reserves the right to amend, modify or terminate the NSP with or without replacement.

The NSP liability is recorded in long-term incentive and other compensation payable. Employer notional contributions, and notional interest and gains and losses are recorded as salaries and benefits expense in the statement of operations and comprehensive income and are described further in note 13(ii).

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

iii) Short-Term Employee Benefits

Short-term employee benefits, such as paid absences and other benefits including any related payroll taxes, are accounted for on an accrual basis over the period in which the employees provide the related services, and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump-sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Amounts payable under variable compensation plans at the end of the year are recorded in incentive and other compensation payable.

iv) Long-Term Employee Benefits

ATBIM has a long-term incentive plan ("LTIP") for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the ATB Board of Directors. The amounts are subject to annual appreciation and depreciation factors that measure performance against targets, and are payable three years from the effective date of the grant. Following the guidance in IAS 19 *(revised) – Employee Benefits*, the liability for LTIP is recorded at the present value of the grants that have vested as of the reporting date, less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive 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.

m. Financial Instruments – Recognition and Measurement

The IASB issued IFRS 9 *Financial Instruments* ("IFRS 9") to replace IAS 39 *Financial Instruments: Recognition and Measurements* ("IAS 39"). IFRS 9 provides a single model for the classification and measurement of financial instruments based on the context of the business model and the contractual cash flow characteristics of an entity's financial instruments. IFRS 9 also establishes a new impairment model based on expected losses, rather than incurred losses. The Company elected to apply the standard retroactive to April 1, 2018.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Recognition

No changes to the Company's policies for recognition or derecognition of financial instruments were required by IFRS 9. All financial assets and financial liabilities are initially recognized on the trade date, which is the date that ATBIM becomes a party to the contractual provisions of the financial instrument. ATBIM derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired, or when the Company transfers the rights to receive the contractual cash flows in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. ATBIM derecognizes a financial liability when its contractual obligations are discharged, or the contract is cancelled or has expired.

Classification and Measurement - Financial Assets

Under IFRS 9, financial assets are classified and measured at amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI"). Classification is based on the Company's business model for managing the specified financial assets, and whether the contractual cash flows of the specified financial asset represents solely payments and interest on the principal amount outstanding (the "SPPI test"). Principal is defined as the fair value of the asset at initial recognition and may change over the asset's life. Interest payments can include consideration for the time value of money as well as for credit and liquidity risks.

Financial assets are only reclassified if a significant change in the asset's business model occurs subsequent to initial recognition.

Classifications existing under IAS 39 that no longer exist under IFRS 9 include loans and receivables, held-to-maturity, and available-for-sale.

The classification of the financial assets of ATBIM under IFRS 9 and previously under IAS 39 are as follows:

Financial Assets	Classification under IFRS 9	Classification under IAS 39
● Cash ● Due from related parties ● Client fees receivable	Amortized cost	Loans and receivables
● Securities owned	FVTPL	FVTPL

Financial assets held primarily to collect contractual cash flows comprised of principal and interest are classified as amortized cost. These assets are initially recognized at fair value – which is the cash consideration to originate or purchase the asset, including any transaction costs – and subsequently measured at amortized cost using the effective interest rate method.

For financial assets classified as amortized cost with an expected term of less than one year that do not have a significant financing component, IFRS 9 permits a practical expedient permitting initial measurement at the transaction price, which results in the recognition of no interest income under the effective interest rate method.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Classification and Measurement - Financial Liabilities

Financial liabilities are classified and measured at either FVTPL or amortized cost. Financial liabilities not classified as FVTPL are measured at amortized cost. Financial liabilities are never reclassified.

The classification of the financial liabilities of ATBIM under IFRS 9 and previously under IAS 39 are as follows:

Financial Liabilities	Classification under IFRS 9	Classification under IAS 39
• Accrued liabilities • Due to affiliates • Commissions payable • Incentive and other compensation payable (note 13) • Due to ATB	Amortized cost	Other financial liabilities
• Incentive and other compensation payable - LTIP (note 13)	FVTPL	FVTPL
• Incentive and other compensation payable - NSP (note 13)	FVTPL	Other financial liabilities

For all financial liabilities classified as amortized cost, ATBIM initially measures all amounts at the transaction price, which results in the recognition of no interest expense under the effective interest rate method.

Balances related to the NSP were previously reported under accrued liabilities and thus classified as other financial liabilities. With the adoption of IFRS 9 and the increasing materiality of the NSP liability, the Company now presents these balances separately. The classification of the NSP liability is split between FVTPL for the portion notionally linked to an underlying investment in a mutual fund, and amortized cost for the remaining portion of the liability related to current year contributions and interest that have not yet been notionally invested.

Impairment of Financial Assets

IFRS 9 establishes a new expected credit loss (“ECL”) model for the recognition and measurement of impairments of financial assets measured at amortized cost. The ECL model involves a staged approach, whereby financial assets move through three stages as their credit quality changes. ECL are the weighted-average credit losses with the probability of default as the weight.

The stage of the ECL model dictates how ATBIM measures impairment losses:

- Stage 1: On initial recognition, for financial assets measured at amortized cost where there is not a significant financing component, ATBIM applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable. For all other financial assets measured at amortized cost, ATBIM determines the impairment provision on a 12-month ECL basis. For these calculations, the Company uses a historical-based provision matrix adjusted for forward-looking factors.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

- Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment, and where the overall assessment of credit risk at the reporting date is not still low, ATBIM records an estimate of lifetime ECL.

- Stage 3: For financial assets that have objective evidence of impairment at the reporting date, ATBIM records an estimate of lifetime ECL and recognizes interest income on the carrying value of the asset net of the credit allowance.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBIM may measure impairment on the basis of an instrument's fair value using an observable market price.

In adopting IFRS 9, there were no material adjustments to provisions for losses determined under IAS 39 and no amounts have been restated. As at March 31, 2019 and March 31, 2018, none of the Company's financial assets were in stages 2 or 3 of the impairment model, and the Company applied the simplified approach to all financial assets in Stage 1.

n. Financial Instruments – 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, accrued liabilities, commissions payable, due to affiliates, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These fair value estimates are classified as level 2 in the fair value hierarchy as described in note 3.

Securities owned, and the liabilities for LTIP and the notionally invested portion of the NSP are carried at fair value. See note 3(i) for an explanation of how these items are valued and where they lie in the fair value hierarchy.

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, 2019 (March 31, 2018 - $22). Securities owned are classified as level 1 under the fair value hierarchy. Changes in fair value are recorded as other income (losses) in the statement of operations and comprehensive income.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The portion of the NSP liability representing notionally invested funds is indexed to the value of the Compass Balanced Portfolio that has a quoted market price available. This portion of the NSP liability amounted to $181 as at March 31, 2019 (March 31, 2018 - $161) is classified as level 2 under the fair value hierarchy.

The fair value of the LTIP component of incentive compensation payable is determined by estimating appreciation factors related to future years' performance, vesting awards over a three-year period and discounting the expected future obligation of the grants using a rate of 3.6% per annum (March 31, 2018 - 3.7%). The LTIP obligation has been classified as level 3 under the fair value hierarchy.

The following table presents the change in fair value of the LTIP:

	March 31, 2019	March 31, 2018
	$	$
Fair value as at beginning of period	123	124
Vesting of previous and current awards	101	70
Changes in estimates	5	(13)
Settled	(57)	(58)
Fair value as at end of period	**172**	**123**

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 significant currency risk.

Interest rate risk: ATBIM is subject to interest rate risk as the amount that is due to ATB (note 7(i)) and cash balances are 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, 2019, ATBIM held $17,611 (March 31, 2018 - $18,958) in cash. As at March 31, 2019, if interest rates were to change by 25 bps, the change in interest income would be approximately $44 (March 31, 2018 - $47).

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Price risk: ATBIM is exposed to price risk through the securities it owns and the NSP liability. As at March 31, 2019, if market prices were to change by 10%, the change in net income before PILOT would be $16 (March 31, 2018 - $14).

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 and client fees receivable balances.

The application of the ECL model (note 2(m)) to the Company's various financial assets is described below:

- Cash balances are subject to the impairment requirements of IFRS 9; however, the identified impairment losses were immaterial. All cash is on deposit with ATB, an Alberta Crown Agent, from which management believes the probability of default is remote.
- Amounts presented as due from related parties are primarily comprised of fund management fees due from ATBIS Funds. This balance also includes certain fund expenses paid by ATBIM on behalf of ATBIS Funds, which ATBIM may choose to absorb (note 5). Given the low probability of default and the Company's history of no actual losses, the provision for ECL for due from related parties at March 31, 2019 was estimated to be $nil (March 31, 2018 - $nil).
- Client fees receivable are collected directly from client accounts. For these balances, management believes default constitutes insufficient assets in the account to pay fees when billed, and that the probability of default is very low because ATBIM investment counselors are directly responsible for portfolio management. Given the low probability of default and a history of negligible actual losses, the provision for ECL for client fees receivable at March 31, 2019 was estimated to be $nil (March 31, 2018 - $nil).

The Company's credit exposure at March 31, 2019 is $36,875 (March 31, 2018 - $37,024), which is the sum of its cash, due from related parties and client fees 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 reducing dividends to its parent, ATB, as required.

The Company's financial liabilities giving rise to liquidity risk that are considered short-term, include accrued liabilities, incentive and other compensation payable, commissions payable, due to affiliates, and due to ATB.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

4. Accounting Changes

i) Accounting Standards Adopted

IFRS 15 *Revenue from Contracts with Customers*

The Company elected to apply the standard on a modified retrospective basis, whereby the cumulative effect of adoption is applied to the period beginning April 1, 2018. IFRS 15 was adopted without using the practical expedient for completed contracts and contract modifications.

In adopting IFRS 15, the Company changed the timing of revenue recognized related to client investment in non-redeemable GIC products offered by ATB. ATBIM now recognizes the full commission receivable over the entire term of the GIC upfront upon the initial investment by its clients, whereas previously revenue was recognized each period over the term of the GIC. An adjustment increasing retained earnings by $15 was made effective April 1, 2018. Offsetting this amount was an increase to amounts due from ATBSI, which collects GIC commissions directly from ATB.

	Adjustment effective April 1, 2018
Assets	**$**
Due from affiliates	15
Liabilities and Shareholder Equity	
Retained earnings	15

As this adjustment represents a non-cash transaction, these amounts are excluded from balances presented in the Statement of Cash Flows section for net change in non-cash working capital items.

If IFRS 15 had not been adopted effective April 1, 2018, the Company estimates that GIC commissions revenue for the year ended March 31, 2019 would have been $132 ($116 as reported).

IFRS 9 *Financial Instruments*

The Company has adopted for the first time IFRS 9 to replace IAS 39. IFRS 9 provides a single model for the classification and measurement of financial instruments based on the context of the business model and the contractual cash flow characteristics of an entity's financial instruments. IFRS 9 also establishes a new impairment model based on expected losses, rather than incurred losses.

The Company elected to apply the standard retroactive to April 1, 2018. Changes to accounting policies are described in note 2 m). No changes to accounting policies required a restatement of prior period earnings; however, in adopting IFRS 9, amounts previously recorded as accrued liabilities for the NSP liability ($161 - March 31, 2018) have been reclassified to incentive and other compensation payable.

Statement of Financial Position	As originally presented as at March 31, 2018	Restated as at March 31, 2018
	$	$
Accrued liabilities	7,808	7,647
Long-term incentive and other compensation payable	66	227

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

ii) New Accounting Standards Not Yet Adopted

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. As ATBIM has no lease commitments it is not expected this standard will have an impact on the Company's financial statements.

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 is subsequently reimbursed. The amounts due from ATBIS Funds arising from these transactions are generally settled in the following month and are not subject to interest charges.

At its sole discretion, ATBIM may waive fund management fees and/or absorb expenses incurred on behalf of the ATBIS Funds. For the year ended March 31, 2019, the Company absorbed $613 of administration and selling expenses for the ATBIS Pooled Fund Series (March 31, 2018 - $552), this expense is recorded in general and administrative expenses. The Company expects that 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, 2019	March 31, 2018
	$	$
Due from ATBIS Funds	12,415	11,707

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, 2019	March 31, 2018
	$	$
Due to ATBSI	845	1,116

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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, 2019	**March 31, 2018**
	$	**$**
Due to ATB	9,072	8,362

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, 2019 was 3.95% (March 31, 2018 - 3.45%).

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, 2019, ATBIM accrued and incurred an expense of $8,938 (March 31, 2018 - $8,104) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2019. PILOT is not charged on adjustments to retained earnings.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

8. Software and Computer Equipment

	Computer Equipment	Computer equipment under development	Software	Software under development	Total
	$	$	$	$	$
Cost					
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
Balance at April 1, 2018	64	-	6,540	-	6,604
Additions	-	-	69	569	638
Transfer to completed asset	-	-	-	(69)	(69)
Retirements	-	-	(3,173)	-	(3,173)
Balance at March 31, 2019	64	-	3,436	500	4,000
Depreciation					
Balance at April 1, 2017	-	-	4,859	-	4,859
Amortization for the year	-	-	326	-	326
Balance at March 31, 2018	-	-	5,185	-	5,185
Balance at April 1, 2018	-	-	5,185	-	5,185
Amortization for the year	21	-	475	-	496
Retirements	-	-	(3,173)	-	(3,173)
Balance at March 31, 2019	21	-	2,487	-	2,508
Carrying Amounts					
Balance at March 31, 2018	64	-	1,355	-	1,419
Balance at March 31, 2019	43	-	949	500	1,492

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2019 was $496 (March 31, 2018 - $326). There were $3,173 of retirements recognized during the year ended March 31, 2019 (March 31, 2018 - $nil) and no impairments (March 31, 2018 - $nil).

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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, 2019	March 31, 2018
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 shareholder equity, are:

- To safeguard ATBIM's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the 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. Management may maintain or adjust the capital structure by adjusting the number of new common shares issued or by restricting dividends. In support thereof, management reviews the financial position of ATBIM on a monthly 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") exists in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. Effective July 1, 2018, with the transition of the private banking business within ATB ("Private Banking") to ATB Wealth, the management fee was extended to include shared costs with Private Banking. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM, ATBIA and Private Banking according to the proportion of total combined revenue that each generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ 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 fees for client referrals and account administration fees for ATBIM employees who have accounts that hold Achievement Notes. ATBIM pays ATBSI trailer fees for providing ongoing support to ATBSI clients invested in ATBIS Funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM. ATBIM does not transact with AltaCorp. A yearly summary of these transactions is as follows:

Related Party	**Transactions**	**Recorded as**	**March 31, 2019**	**March 31, 2018**
	Revenue		**$**	**$**
ATBIS Funds	Fund management fees	Fund management fees	133,146	126,388
ATB	Interest income	Interest income	525	314
ATB	GIC commissions	GIC commissions	188	116
			133,859	**126,818**
	Administrative and selling and other expenses			
ATBIS Funds	Fund expenses absorbed	General and administrative expenses	613	552
ATBSI	Trailer fees	Trailing commissions expense	61,582	61,341
ATBSI	Account administration fees	Salaries and employee benefits	5	15
ATBSI	Relationship management fees	Professional fees	3,737	3,422
ATBSI	Management fees	Intercorporate management fees	16,758	13,126
ATB	Wire transfer cost	Professional fees	2	2
ATB	Rent	General and administrative expenses	386	195
ATB	Interest expense and standby fees	Banking and interest charges	18	15
			83,101	**78,668**

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2018 (for the year ended March 31, 2019) and April 1, 2017 (for the year ended March 31, 2018).

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.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ 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 12).

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	1,060	783
Deferred compensation	107	74
Retirement and post employment benefits	116	81
	1,283	**938**

Employee Achievement Notes

ATB sells Principal-at-Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Wealth brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBIM. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

The rebranding and reorganization of ATBIS into ATB Wealth does not change the manner in which Achievement Notes are valued. ATB Wealth's results are a combination of ATBIM, ATBSI, ATBIA and Private Banking. These combined results are now published in ATB's quarterly and annual reporting. The basis of reporting for ATB Wealth is different than the legal entity results of ATBIM, ATBSI and ATBIA from which the Achievement Note valuation is derived.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note;
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATB Wealth executives); and,
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is a risk, if the valuation decreases, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the valuation is based on a model prepared by an external consultant and updated annually.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

As at March 31, 2019 the liability recorded by ATB with regards to the Achievement Notes owned by the employees of ATBIM, or previously allocated to ATBIM as part of shared management services, is as follows:

	March 31, 2019	March 31, 2018
	$	$
Liability at beginning of year	6,214	4,845
New subscriptions	154	526
Redemptions	(43)	(16)
Appreciation and vesting	646	859
Liability at end of year	**6,971**	**6,214**

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, or to an RRSP, RESP, or ATB mortgage. For the year ended March 31, 2019, expenses related to the flexible pension plan, which are recorded in salaries and employee benefits, were $595 (March 31, 2018 - $488).

ii) Notional Supplemental Plan

The change in the carrying value of the NSP (note 2(k)(ii)), and the split of the classification between FVTPL and amortized cost is as follows:

	March 31, 2019	March 31, 2018
	$	$
Carrying amount at beginning of year	161	76
Transfer to ATBSI	(49)	-
Employer contributions	45	67
Employee contributions	18	18
Gains and losses on notionally invested amounts	6	-
Settled	-	-
Carrying amount at end of year	**181**	**161**

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

iii) Incentive Compensation Plans

As at March 31, 2019, the Company had accrued and expensed $655 (March 31, 2018 - $705) for variable compensation plans related to the achievement of goals and performance targets (note 2) (k) iii)).

For LTIP (note 2 (k) (iv)), amounts recorded as at March 31, 2019 are as follows:

Fiscal Year Issued	LTIP Grants Issued	Allowance for Early Termination	Vested	PV of the Grants Vested
	$	$	$	$
2017	68	-	68	68
2018	85	4	54	52
2019	176	9	56	52
Total	**329**	**13**	**178**	**172**

The value presented for LTIP grants issued includes the appreciation and depreciation of those awards. Of the $172 (March 31, 2018 - $123) present value of the obligation that has vested, $68 (March 31, 2018 - $57) is included in the current portion of the incentive compensation payable and $104 (March 31, 2018 - $66) is included in the long-term portion. The related expense of $111 (March 31, 2018 - $78) is recorded in incentive compensation expenses.

14. Disaggregation of Revenue from Contracts with Customers

Nature of revenue	Customer	March 31, 2019 $	March 31, 2018 $
Recognized over time and based on assets under administration			
Fund management fees	ATBIS Funds	133,146	126,388
Fund management fees	ATBIM clients	8,305	7,253
Fund management fees	Other	1,958	585
Fee-based revenue	ATBIM clients	18,499	16,824
GIC commissions	ATB	45	116
Trailer fees and mutual fund commissions	Third parties	9	21
		161,962	151,187
Recognized at a point in time			
Securities commissions	ATBIM clients	62	96
GIC commissions	ATB	143	-
		205	96
Total revenues from contracts with customers		**162,167**	**151,283**

15. Credit Facility

ATBIM had access to a $5,000 (March 31, 2018 - $5,000) unsecured operating loan facility with ATB. This credit facility was terminated effective April 1, 2019. Interest on the facility was calculated based on prime less 0.25%, which was 3.70% at March 31, 2019 (March 31, 2018 - 3.20%). No amounts were drawn on the facility at March 31, 2019 (March 31, 2018 - $nil). A standby fee of $12 (March 31, 2018 - $12) was paid during the year on the undrawn portion and is included in banking and interest charges.

ATB Investment Management Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

16. Comparative Figures

In addition to the impacts of adopting IFRS 9 described in note 4(i), certain comparative figures have been reclassified to conform with the current year's presentation. Amounts previously recorded as accounts receivable were determined to be client fees receivable. Amounts previously presented as other income (losses) were reclassified to better align with classifications used by ATBSI in adopting IFRS 15. Finally, amounts exchanged with ATB were reclassified from financing activities to operating activities in the Statement of Cash Flows, as ATBIM no longer requires its parent as a source of long-term financing.

	Revised Year End Presentation March 31, 2018	Year End Presentation March 31, 2018
Statement of Financial Position	**$**	**$**
Accounts receivable	-	2,294
Client fees receivable	6,359	4,065
Statement of Operations and Comprehensive Income		
GIC commissions	116	-
Trailer fees and mutual fund commissions	21	-
Other contract revenue	1	-
Other income (losses)	(11)	127
Statement of Cash Flows		
Accounts receivable	-	(431)
Client fees receivable	(1,022)	(591)
PILOT payable	-	1,043
Due to ATB	803	(240)

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ATB SECURITIES INC.

Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of ATB Securities Inc.

Report on the Financial Statements

Opinion

I have audited the financial statements of ATB Securities Inc., which comprise the statement of financial position as at March 31, 2019, and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATB Securities Inc. as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Other information

The financial statements of ATB Securities Inc. are included in the Annual Report of the Ministry of Treasury Board and Finance that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the Annual Report of the Ministry of Treasury Board and Finance, but does not include the financial statements and my auditor's report thereon. The Annual Report of the Ministry of Treasury Board and Finance is expected to be made available to me after the date of this auditor's report.

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

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

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

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing ATB Securities Inc.'s financial reporting process.

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

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

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

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

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

May 29, 2019
Edmonton, Alberta

ATB Investor Services™

ATB Securities Inc.

Statement of Financial Position

As at March 31, 2019 ($ thousands)

	March 31, 2019 $	March 31, 2018 $
ASSETS		
Current assets		
Cash	49,593	-
Short-term investments	-	47,931
Clients' cash held in trust	25,574	26,538
Due from clients	13,644	17,296
Due from brokers and dealers	11,934	18,902
Client fees receivable	9,992	8,155
Trailer fees receivable	391	461
Due from affiliates (note 5)	845	1,133
Due from advisors (note 11)	522	574
Miscellaneous receivables	107	223
Prepaid expenses	467	815
	113,069	122,028
Non-current assets		
Software and computer equipment (note 7)	11,458	10,757
Due from advisors (note 11)	285	534
Deferred employee benefits (note 11)	61	117
	11,804	11,408
	124,873	133,436
LIABILITIES		
Current liabilities		
Bank overdraft	-	2,989
Due to clients	42,824	44,310
Due to brokers and dealers	21,254	28,726
Accrued liabilities	5,861	5,885
Commissions payable	10,076	8,592
Incentive and other compensation payable (note 11)	4,889	4,711
Due to affiliates (note 5)	11	-
Due to ATB (note 6)	2,329	5,334
	87,244	100,547
Long-term liabilities		
Incentive and other compensation payable (note 11)	1,623	1,215
	88,867	101,762
SHAREHOLDER EQUITY		
Share capital (note 8)	26,391	26,391
Retained earnings	9,615	5,283
	36,006	31,674
	124,873	133,436

The accompanying notes are an integral part of these financial statements.
Certain comparative figures have been reclassified (note 16)

Approved by the Board Directors

Original signed by
Director

Original signed by
Chief Financial Officer

ATB Investor Services™

ATB Securities Inc.

Statement of Change in Equity

For the year ended March 31, 2019 ($ and # in thousands)

	Class A Common Shares	Share Capital	Retained Earnings	Shareholder Equity
	#	$	$	$
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
Balance at March 31, 2018	78,995	26,391	5,283	31,674
Change in accounting policy (note 4)	-	-	736	736
Restated total equity at beginning of year	78,995	26,391	6,019	32,410
Dividends	-	-	(9,000)	(9,000)
Net income and comprehensive income	-	-	12,596	12,596
Balance at March 31, 2019	78,995	26,391	9,615	36,006

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

ATB Investor Services™

ATB Securities Inc.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2019 ($ thousands)

	March 31, 2019	March 31, 2018
Revenue (note 12)	**$**	**$**
Trailer fees and mutual fund commissions	66,594	67,270
Fee based revenue	37,920	29,599
Intercorporate management fees	17,613	13,252
Relationship managmeent fees	3,737	3,422
GIC commissions	2,747	3,249
Client account fees	2,330	2,348
Interest income	1,387	740
Securities commissions	546	615
Other contract revenue	143	160
Other income (losses)	(32)	6
	132,985	120,661
Administration and selling expenses		
Commission expenses	48,766	45,197
Salaries and employee benefits	30,016	26,595
General and administrative expenses	10,581	10,131
IT infrastructure and services	8,114	6,092
Professional fees	6,459	5,146
Incentive compensation expenses	5,488	5,457
Amortization expense (note 7)	4,847	4,059
Clearing and processing	2,287	2,080
Banking and interest charges	68	39
	116,626	104,796
Net income before payment in lieu of tax	16,359	15,865
Payment in lieu of tax (PILOT) (note 6(ii))	3,763	3,649
Net income and comprehensive income	12,596	12,216

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

Certain comparative figures have been reclassified (note 15)

ATB Investor Services™

ATB Securities Inc.
Statement of Cash Flows
For the year ended March 31, 2019 ($ thousands)

Cash provided by (used in)	**March 31, 2019 $**	**March 31, 2018 $**
Operating activities		
Net income	12,596	12,216
Items not affecting cash		
Amortization and depreciation expense	4,847	4,059
Loss on retirement of software assets	-	120
Net operating activities	17,443	16,395
Net change in non-cash working capital items		
Cash from (paid to) clients and brokers/dealers	2,626	(320)
Client fees receivable	(1,837)	(2,766)
Trailer fees receivable	70	84
Due from affiliates	284	(420)
Due from advisors	357	(151)
Miscellaneous receivables	116	(192)
Prepaid expenses	348	(339)
Accrued liabilities	(24)	1,107
Commissions payable	859	962
Incentive and other compensation payable	586	2,603
Due to (from) ATB	(1,629)	1,505
Change in non-cash working capital items	1,756	2,073
Net cash from operating activities	19,199	18,468
Investing activities		
Short-term investments	47,931	(9,963)
Software and computer equipment	(5,548)	(3,679)
Net cash from (used in) investing activities	42,383	(13,642)
Financing activities		
Dividends	(9,000)	(12,000)
Net cash used in financing activities	(9,000)	(12,000)
Net change in cash	52,582	(7,174)
(Bank overdraft) cash at beginning of year	(2,989)	4,185
Cash (bank overdraft) at end of year	49,593	(2,989)
Supplementary information		
Interest paid	68	39
Interest received	1,387	740
PILOT paid	3,649	3,623

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

Certain comparative figures have been reclassified (note 15)

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

1. Nature of Operations

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly-owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM"), ATB Insurance Advisors Inc. ("ATBIA") and AltaCorp Capital Inc. ("AltaCorp"). ATBSI, ATBIM, and ATBIA operate under the trademark ATB Wealth, which also includes certain private banking operations within ATB. ATBSI, ATBIM and ATBIA previously operated 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 29, 2019.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2019.

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 in United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets at fair value through profit and loss.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBSI's critical accounting estimates under IFRS:

i) Depreciation and Amortization Methods

Computer equipment 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, 2019 ($ thousands)

ii) Estimates for Valuing Certain Assets and Liabilities of ATBSI

ATBSI's loans to its advisors and its long-term incentive compensation plan liability ("LTIP") have maturity dates longer than one year and therefore are valued using an appropriate discount rate. The valuation of LTIP also includes estimates for ATB achieving future performance targets, and estimates about the possibility of employee termination or forfeiture, both which 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. The Company primarily uses accounts held with ATB, but also has accounts with another financial institution for day-to-day 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.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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 7 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBSI, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

h. Impairment of 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, 2019 or 2018.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

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 executed but not settled. 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 assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company has not recognized any provisions at March 31, 2019 (March 31, 2018 - $nil).

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBSI, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require an outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote (note 15).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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 income (losses) in the statement of operations and comprehensive income.

l. Revenue Recognition

The Company has adopted for the first time IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as described in note 4(i). IFRS 15 replaces IAS 18 *Revenue*, which covers contracts for goods and services, and IAS 11 *Construction Contracts*. The Company elected to apply the standard on a modified retrospective basis, whereby the cumulative effect of adoption is applied to the period beginning April 1, 2018.

Interest income is not in scope under IFRS 15 and is recorded on an accrual basis.

IFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The new guidance includes a five-step recognition and measurement framework that ATBIM follows in order to determine when to recognize revenue.

i. Identify the contract(s) with a customer
ii. Identify the performance obligation(s) in the contract
iii. Determine the transaction price
iv. Allocate the transaction price
v. Recognize revenue when (or as) ATBSI satisfies a performance obligation

ATBSI has the following kinds of revenue from contracts with customers (see also note 12):

Trailer Fees and Mutual Fund Commissions from Asset Managers

ATBSI may earn a trailing commission, or trailer fee, from asset management companies for providing advice to ATBSI clients while the clients hold investments in the mutual funds managed by such companies. These trailer fees are receivable while clients remain invested in the mutual funds. These asset management companies include ATBIM (for the Compass Portfolio Series and ATBIS Pooled Fund Series of mutual funds) and ATB (for its High Interest Savings Accounts, or HISA). Trailer fees earned by ATBSI are specified in the individual prospectuses of these mutual fund series, and are generally based on the average daily net asset value ("NAV") of the mutual fund series or HISA product held by ATBSI clients. ATBSI accrues these trailer fees monthly, and collects from the asset managers on a monthly or quarterly basis. The individual prospectuses of certain mutual funds may also entitle ATBSI to earn other types of transaction commissions; however, these amounts are very insignificant relative to trailer fees received.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Advisory Fees from ATBSI Clients (Fee Based Revenue)

ATBSI earns fee based revenues from certain clients for providing investment advice, which may include management of investment portfolios or wealth planning, while the clients hold investments through ATBSI. The advice fee charged by ATBSI is negotiated between the client and ATBSI in accordance with tiered rates set by Company guidelines. The fee is based on the average daily market value of client assets under administration by ATBSI as specified in the contract with the client, and applied equally to the satisfaction of all performance obligations of ATBSI. ATBSI accrues fee based revenue each month, and collects directly from client accounts every quarter, or when clients transfer assets to another financial institution.

Intercorporate Management fees from ATBIM, ATBIA and ATB

An intercorporate management fee exists in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM, and ATBIA. Effective July 1, 2018, with the transition of the private banking business within ATB (“Private Banking”) to ATB Wealth, the management fee was extended to include shared costs with Private Banking. This fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM, ATBIA and Private Banking according to the proportion of total combined revenue that each generates (net of eliminations) on a year-to-date basis. The fee charged by ATBSI is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

Relationship Management Fees from ATBIM

ATBSI earns fees from ATBIM where ATBSI advisors are involved in managing relationships with ATBIM clients that were referred from ATBSI and who hold investments through ATBIM. The fee charged by ATBSI is negotiated between ATBIM and ATBSI, based on the fees charged by ATBIM to its clients, and applied equally to the satisfaction of all performance obligations. ATBSI accrues these fees each month and collects from ATBIM every quarter.

GIC Commissions from ATB

ATBSI earns commissions from ATB where ATBSI clients purchase or hold GICs offered through ATB. The commissions earned by ATBSI are specified in the service level agreement between ATB and ATBSI (note 10), and based on the principal value and term of the GIC. ATBSI recognizes these commissions as revenue when it has fully satisfied its obligation to advise clients about purchasing or holding the GIC. Where GICs are not redeemable, GIC commissions are recognized in full at the time of purchase for the entire term of the contract. Where the GICs are redeemable by the client without penalty and ATBSI has an ongoing obligation to advise clients about continuing to hold the GICs, commissions are recognized monthly based on the number of days in the month the GIC was held.

Prior to April 1, 2018, ATBSI also earned commissions on GICs held by clients of ATB that the Company referred to ATB. ATB and ATBSI agreed to end the payment of these commissions.

Securities Trading Commissions and Client Account Fees from ATBSI Clients

ATBSI earns commissions from certain client trading activity, account fees for administering registered plan accounts not subject to advisory fees as described above, and other fees for transferring or deregistering accounts. ATBSI may choose to waive these fees. Securities trading commission rates and account fees are specified in the documentation provided to clients when they enroll with ATBSI. Securities commissions are recognized on a trade-date basis.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Fees for transferring or deregistering accounts are recognized when such activity occurs. Account administration fees are accrued evenly throughout the year and collected directly from client accounts annually. These fees are recorded in client account fees.

Other Contract Revenue

ATBSI earns commissions from ATBIA where client referrals result in new insurance policies placed through ATBIA. ATBSI also earns commissions from a third party discount broker for referring business to those entities.

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 related salaries or incentive compensation are earned, and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ii) Notional Supplemental Plan

ATBSI has a notional supplemental plan (NSP) that provides additional retirement benefits to eligible employees that cannot be provided within the defined contribution plan due to taxation limitations on contributions to a registered defined contribution pension plan.

The NSP account is an unfunded account established by ATB on behalf of each eligible employee, which is comprised of notional contributions, notional interest and notional gains and losses. Notional contributions are amounts that would have been made pursuant to the defined contribution plan were taxation limits not imposed. Notional contributions include both employee and employer contributions. Notional interest is accrued on notional contributions at a rate for customer deposits with ATB in the calendar year of contribution until the end of the year, at which point the combined amount is notionally invested. The ongoing value of the notional investments is indexed to the NAV of one of the Compass Portfolio Series of mutual funds, resulting in notional gains and losses, which cease to accrue at the end of the month in which the employee retires or leaves the company.

The Company is not required to secure the NSP benefits, or to establish or contribute to a funding arrangement of any kind with respect to the provision of benefits payable. The Company may establish, but has no obligation to establish, a special purpose reserve in respect of the liabilities under the NSP.

The Company anticipates that the NSP will continue indefinitely; however, the Company reserves the right to amend, modify or terminate the NSP with or without replacement.

The NSP liability is recorded in long-term incentive and other compensation payable. Employer notional contributions, and notional interest and notional gains and losses are recorded as salaries and benefits expense in the statement of operations and comprehensive income and are described further in note 11(iii).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

iii) Short-Term Employee Benefits

Short-term employee benefits, such as paid absences and other benefits including any related payroll taxes, are accounted for on an accrual basis over the period in which the employees provide the related services, and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump-sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Amounts payable under variable compensation plans at the end of the year are recorded in incentive and other compensation payable.

iv) Long-Term Employee Benefits

ATBSI has a long-term incentive plan ("LTIP") for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the ATB Board of Directors. The amounts are subject to annual appreciation and depreciation factors that measure performance against targets, and are payable three years from the effective date of the grant. Following the guidance in IAS 19 *(revised) – Employee Benefits* ("IAS 19"), the liability for LTIP is recorded at the present value of the grants that have vested as at the reporting date, less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

v) Loans to Advisors

For a period of time, ATBSI offered loans to its advisors at rates significantly below fair value as an employee benefit. These loans are financial assets, the accounting for which is described in note 2 o). No new loans are currently being offered by the Company.

As the rates on the loans to advisors are below market interest rates, the fair value of the loans is less than the carrying amount of the loans. The difference between the fair value on initial recognition and the carrying value is an employee benefit, 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 deferred employee benefits on the statement of financial position, and expensed over the service period to salaries and employee benefits. If the employee is terminated or leaves ATBSI, the residual deferred employee benefit is immediately expensed to salaries and employee benefits.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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 10) 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.

o. Financial Instruments – Recognition and Measurement

The IASB issued IFRS 9 *Financial Instruments* (“IFRS 9”) to replace IAS 39 *Financial Instruments: Recognition and Measurements* (“IAS 39”). IFRS 9 provides a single model for the classification and measurement of financial instruments based on the context of the business model and the contractual cash flow characteristics of an entity’s financial instruments. IFRS 9 also establishes a new impairment model based on expected losses, rather than incurred losses. The Company elected to apply the standard retroactive to April 1, 2018.

Recognition

No changes to the Company’s policies for recognition or derecognition of financial instruments were required by IFRS 9. All financial assets and financial liabilities are initially recognized on the trade date, which is the date that ATBSI becomes a party to the contractual provisions of the financial instrument. ATBSI derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired, or when the Company transfers the rights to receive the contractual cash flows in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. ATBSI derecognizes a financial liability when its contractual obligations are discharged, or the contract is cancelled or has expired.

Classification and Measurement - Financial Assets

Under IFRS 9, financial assets are classified and measured at amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income (“FVOCI”). Classification is based on the Company’s business model for managing the specified financial assets, and whether the contractual cash flows of the specified financial asset represents solely payments and interest on the principal amount outstanding (the “SPPI test”). Principal is defined as the fair value of the asset at initial recognition and may change over the asset’s life. Interest payments can include consideration for the time value of money, as well as for credit and liquidity risks.

Financial assets are only reclassified if a significant change in the asset’s business model occurs subsequent to initial recognition.

Classifications existing under IAS 39 that no longer exist under IFRS 9 include loans and receivables, held-to-maturity, and available-for-sale.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The classifications of the financial assets of ATBSI under IFRS 9 and previously under IAS 39 are as follows:

Financial Assets	Classification under IFRS 9	Classification under IAS 39
• Cash • Clients' cash held in trust • Due from clients • Due from brokers and dealers • Due from advisors • Client fees receivable • Trailer fees receivable • Due from affiliates • Miscellaneous receivables	Amortized cost	Loans and receivables
• Short-term investments	FVTPL	FVTPL

Financial assets held primarily to collect contractual cash flows comprised of principal and interest are classified as amortized cost. These assets are initially recognized at fair value – which is the cash consideration to originate or purchase the asset, including any transaction costs – and subsequently measured at amortized cost using the effective interest rate method.

For financial assets classified as amortized cost with an expected term of less than one year that do not have a significant financing component, IFRS 9 permits a practical expedient permitting initial measurement at the transaction price, which results in the recognition of no interest income under the effective interest rate method.

For other financial assets measured at amortized cost, interest is reported as interest income in the statement of operations and comprehensive income.

Short-term investments are classified as FVTPL. During the year, the Company transitioned where it holds excess cash, switching from investments in T-Bills to cash held in a third-party bank account. Previously the company traded T-Bills around temporary fluctuations in cash balances related to settlements for large, client transactions and large cash payments to ATB. Income from holding T-Bills is recorded as interest income in the statement of operations and comprehensive income.

Classification and Measurement - Financial Liabilities

Financial liabilities are classified and measured at either FVTPL or amortized cost. Financial liabilities not classified as FVTPL are measured at amortized cost. Financial liabilities are never reclassified.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The classifications of the financial liabilities of ATBSI under IFRS 9 and previously under IAS 39 are as follows:

Financial Liabilities	Classification under IFRS 9	Classification under IAS 39
• Bank overdraft • Accrued liabilities • Due to clients • Due to brokers and dealers • Due to affiliates • Commissions payable • Incentive and other compensation payable (note 11) • Due to ATB	Amortized cost	Other financial liabilities
• Incentive and other compensation payable - LTIP (note 11) • AltaCorp guarantee	FVTPL	FVTPL
• Incentive and other compensation payable - NSP (note 11)	FVTPL	Other financial liabilities

For all financial liabilities classified as amortized cost, ATBSI initially measures amounts at the transaction price, which results in the recognition of no interest expense under the effective interest rate method.

Altacorp Guarantee

Coincident with ATB's acquisition of a controlling interest in 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.

The Agreement sets the guarantee amount as a percentage of regulatory capital. The percentage is limited to ATB's ownership of each of the Guarantors. The maximum guarantee of each Guarantor is equal to its regulatory capital at the time any demand is made, multiplied by the percentage applicable to the Guarantor. 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, 2019, and March 31, 2018, no demands have been made under the Agreement and the maximum amount of ATBSI's guarantee under the Agreement is $36,006 (March 31, 2018 - $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.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Impairment of Financial Assets

IFRS 9 establishes a new expected credit loss ("ECL") model for the recognition and measurement of impairments of financial assets measured at amortized cost. The ECL model involves a staged approach, whereby financial assets move through three stages as their credit quality changes. Expected credit losses are the weighted-average credit losses, where the probability of default is used for the weighting.

The stage of the ECL model dictates how ATBSI measures impairment losses:

- Stage 1: On initial recognition, for financial assets measured at amortized cost where there is not a significant financing component, ATBSI applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition date of the asset. For all other financial assets measured at amortized cost, ATBSI determines the impairment provision on a 12-month ECL basis. For these calculations, the Company uses a historical-based provision matrix adjusted for forward-looking factors.

- Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment, and where the overall assessment of credit risk at the reporting date is not still low, ATBSI records an estimate of lifetime ECL.

- Stage 3: For financial assets that have objective evidence of impairment at the reporting date, ATBSI records an estimate of lifetime ECL and recognizes interest income on the carrying value of the asset, net of the credit allowance.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBSI may measure impairment on the basis of an instrument's fair value using an observable market price.

In adopting IFRS 9, there were no material adjustments to provisions for losses determined under IAS 39 and no amounts have been restated. As at March 31, 2019 and March 31, 2018, none of the Company's financial assets were in stages 2 or 3 of the impairment model, and the Company applied the simplified approach to all financial assets in Stage 1 except for loans to advisors.

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 fair value estimates are classified as level 2 in the fair value hierarchy as described in note 3.

Short-term investments and the liabilities for LTIP and the notionally invested portion of the NSP are carried at fair value. See note 3(i) for an explanation of how these items are valued and where they lie in the fair value hierarchy.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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.

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 $nil (March 31, 2018 - $47,931) are classified as level 1 under the fair value hierarchy.

- The portion of the NSP liability representing notionally invested funds is indexed to the value of a mutual fund with a quoted market price available. This portion of the NSP liability amounted to $874 as at March 31, 2019 ($554 as at March 31, 2018) and is classified as level 2 under the fair value hierarchy.

- 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. The fair value of the LTIP component of incentive compensation payable is determined by estimating appreciation factors related to future years' performance, vesting awards over a three-year period and discounting the expected future obligation of the grants using a rate of 3.6% per annum (March 31, 2018 - 3.7%). 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, 2019	March 31, 2018
	$	$
Fair value as at beginning of period	1,067	798
Vesting of previous and current awards	783	607
Changes in estimates	54	79
Settled	(467)	(417)
Fair value as at end of period	**1,437**	**1,067**

There have been no transfers between fair value hierarchy levels during the period.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

ii) Financial Risk Management

ATBSI's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBSI's overall risk management program focuses on the unpredictability of financial and economic markets, and seeks to minimize potential adverse effects on ATBSI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk, and price risk.

Currency risk: Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBSI can have material amounts of financial instruments denominated in foreign currencies. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2019 and March 31, 2018 US dollar denominated balances amounted to:

	US$ March 31, 2019	US$ March 31, 2018
Cash	1,302	535
Due from clients	283	163
Due from brokers and dealers	33	57
Client fees receivable	43	42
Dividends Receivable	-	124
Due to clients	(580)	(248)
Due to brokers and dealers	(395)	(96)
Accrued liabilities	(18)	(56)
	668	**521**

A 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $33 (March 31, 2018 - $26).

Interest rate risk: ATBSI is subject to interest rate risk as the amount that is due to ATB (note 6(i)), and cash 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 value of its loans to advisors (recorded as part of due from advisors) and LTIP liability will fluctuate as a result of changes in market interest rates. ATBSI does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2019, ATBSI held $75,167 (March 31, 2018 - $71,480) in cash, clients' cash held in trust, bank overdraft and short-term investments. As at March 31, 2019, if interest rates were to change by 25 bps, the change in interest revenue would be approximately $188 (March 31, 2018 - $179).

As at March 31, 2019, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), would be approximately $5 (March 31, 2018 - $17).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

Price risk: ATBSI is exposed to price risk through the NSP liability. As at March 31, 2019, if market prices were to change by 10%, the change in salaries and employee benefits expense would be $87 (March 31, 2018 - $55).

Credit Risk

Credit risk is the risk that a counterparty to a financial asset will default resulting in a financial loss to ATBSI. ATBSI is exposed to credit risk primarily through its 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, due from advisors, and miscellaneous receivables.

The application of the ECL model (note 2 o)) to the Company's various groups of financial assets is described below:

- Loans to advisors are considered low risk, as any amounts past due may be offset against compensation owed to these advisors. Therefore, the impairment provision is determined using 12 months of ECL. Where a loan balance remains outstanding from an advisor that is no longer an employee of ATBSI, the exposure to loss in the event of default could be higher. The provision for ECL on loans to advisors at March 31, 2019 was $8 (March 31, 2018 - $23).

- Cash and client's cash held in trust balances are subject to the impairment requirements of IFRS 9; however, the identified impairment losses were immaterial. As at March 31, 2019, $2,275 of cash was on deposit with ATB, an Alberta Crown Agent. The remaining cash balance of $47,318 and clients' cash held in trust were on deposit with reputable financial institutions. Management believes the probability of default for all of these institutions is remote.

- Amounts presented as due from clients primarily pertain either to margin accounts or trade settlements. For these balances, management believes default constitutes either a margin call that cannot be met due to insufficient assets or unresolved settlement of trade balances beyond thirty days. Loans for margins accounts are fully secured by securities held in the borrower's account. The Company has credit controls, monitoring and procedures governing margin accounts, while the short-term nature of trade settlement amounts means balances are generally outstanding for only two to three days after becoming due. Given the low probability of default, the low exposure to actual losses should default occur, and the Company's history of negligible actual losses, the provision for ECL for due from clients balances at March 31, 2019 was $nil (March 31, 2018 - $nil).

- Amounts presented as due from brokers and dealers generally represent either amounts due from mutual fund companies for sales by ATBSI clients of mutual fund units and unpaid mutual fund distributions, or amounts due from brokers who facilitate sales of other securities by ATBSI clients. Amounts due from mutual fund companies can include settlements related to client investments in mutual fund trusts managed by ATBIM and HISA products managed by ATB. Generally, these balances are outstanding for only two to three days after becoming due. For these balances, management believes default constitutes an unresolved settlement beyond thirty days, and that the probability of default is very low. In the event of default, management believes the amount exposed to loss would be reduced by any amounts due to the counterparty recorded in due to brokers and dealers. Given the low probability of default, the lower net exposure to actual losses from third party counterparties should default occur, and the Company's history of negligible actual losses, the provision for ECL for due from clients balances at March 31, 2019 was $nil (March 31, 2018 - $nil).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

- Client fees receivable are collected directly from client accounts. For these balances, management believes default constitutes insufficient assets in the account to pay fees when billed, and that the probability of default is very low, as ATBSI advisors are able to approve and monitor client transaction activity or liquidate securities held by clients to pay outstanding fees. Given the low probability of default and a history of negligible actual losses, the provision for ECL for client fees receivable at March 31, 2019 was $nil (March 31, 2018 - $nil).

- Amounts due from affiliates are either from ATBIM, which is a profitable company with management common to ATBSI, or from ATBIA, which has a support agreement in place with ATB. Given the low probability of default, combined with the low exposure to actual losses should default occur, the provision for ECL for amounts due from affiliates at March 31, 2019 was $nil (March 31, 2018 - $nil).

- Remaining balances for financial assets measured at amortized cost, including trailer fees receivable and miscellaneous receivables are themselves not material, and as such the identified impairment loss was immaterial.

The Company's maximum credit exposure is $112,887 (March 31, 2018 - $121,747) 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, due from 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 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 and other compensation payable, and due to ATB.

4. Accounting Changes

i) Accounting standards adopted

IFRS 15 *Revenue from Contracts with Customers*

The Company has adopted for the first time IFRS 15. The Company elected to apply the standard on a modified retrospective basis, whereby the cumulative effect of adoption is applied to the period beginning April 1, 2018. IFRS 15 was adopted without using the practical expedient for completed contracts and contract modifications.

In adopting IFRS 15, the Company changed the timing of revenue recognized related to client investments in non-redeemable GIC products offered by ATB. ATBSI now recognizes the full commission receivable over the entire term of the GIC upfront upon the initial investment by its clients, whereas previously revenue was recognized each period over the term of the GIC. An adjustment increasing retained earnings by $736 was made effective April 1, 2018.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The entire impact of this adjustment on balances as at April 1, 2018 was as follows:

	Balance as of April 1, 2018	IFRS 15 Adjustment	Restated Balance as of April 1, 2018
	$	$	$
Assets			
Due from affiliates - ATBIM	1,133	(15)	1,118
Liabilities and Shareholder Equity			
Due to ATB	5,334	(1,376)	3,958
Commissions payable	8,592	625	9,217
Retained earnings	5,283	736	6,019

As this adjustment represents a non-cash transaction, these amounts are excluded from balances presented in the Statement of Cash Flows section for net change in non-cash working capital items.

If IFRS 15 had not been adopted effective April 1, 2018, the Company estimates that GIC commissions revenue for the year ended March 31, 2019 would have been $2,137 ($3,249 as reported).

IFRS 9 *Financial Instruments*

The Company has adopted for the first time IFRS 9 to replace IAS 39. IFRS 9 provides a single model for the classification and measurement of financial instruments based on the context of the business model and the contractual cash flow characteristics of an entity's financial instruments. IFRS 9 also establishes a new impairment model based on expected losses, rather than incurred losses.

The Company elected to apply the standard retroactive to April 1, 2018. Changes to accounting policies are described in note 2 o). No changes to accounting policies required a restatement of prior period earnings; however, in adopting IFRS 9, one change to the classification of financial instruments resulted in changes to amounts previously presented. Amounts previously recorded as accrued liabilities for the NSP liability ($554 as at March 31, 2018) have been reclassified to incentive and other compensation payable.

Statement of Financial Position	As originally presented as at March 31, 2018	Restated as at March 31, 2018
	$	$
Accrued liabilities	6,439	5,885
Long-term incentive and other compensation payable	661	1,215

ii) New accounting standards not yet adopted

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.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

ATBSI is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2019. As ATBSI has no lease commitments, Management does not expect this standard will have an impact on the Company's financial statements.

5. Due from (to) Affiliates

In the normal course of operations, ATBSI receives trailing commissions and relationship management fees from ATBIM, collects client 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 (to) affiliates are as follows:

	March 31, 2019	March 31, 2018
	$	$
Due from ATBIM	845	1,116
Due (to) from ATBIA	(11)	17
	834	**1,133**

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. ATBSI also collects GIC commissions and intercorporate management fees for shared management of the ATB Private Banking business. 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, 2019	March 31, 2018
	$	$
Due to ATB	2,329	5,334

The net amount due to ATB, excluding GIC commissions receivable and excluding PILOT payable (note 6(ii)), is subject to monthly interest charges at ATB's prime lending rate. This net payable balance was $537 at March 31, 2019 ($1,685 - March 31, 2018). The prime lending rate at March 31, 2019 was 3.95% (March 31, 2018 – 3.45%).

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, 2019, ATBSI accrued and incurred an expense of $3,763 (March 31, 2018 - $3,649) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2019. PILOT is not charged on adjustments to retained earnings.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

7. Software and Computer Equipment

	Computer Equipment	Computer Equipment under development	Software	Software under development	Total
	$	$	$	$	$
Cost					
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
Balance at April 1, 2018	1,507	-	25,905	2,656	30,068
Additions	-	-	2,971	5,548	8,519
Transfer to completed asset	-	-	-	(2,971)	(2,971)
Retirements	(411)	-	(1,589)	-	(2,000)
Balance at March 31, 2019	1,096	-	27,287	5,233	33,616
Depreciation					
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
Balance at April 1, 2018	1,281	-	18,030	-	19,311
Amortization for the year	221	-	4,626	-	4,847
Retirements	(411)	-	(1,589)	-	(2,000)
Balance at March 31, 2019	1,091	-	21,067	-	22,158
Carrying Amounts					
Balance at March 31, 2018	226	-	7,875	2,656	10,757
Balance at March 31, 2019	5	-	6,220	5,233	11,458

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2019 was $4,847 (March 31, 2018 - $4,059). The retirement of assets during the year resulted in a charge of $nil (March 31, 2018 - $120) recorded to general and administrative expenses. There were no impairments recognized during the year ended March 31, 2019 (March 31, 2018 - $nil).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ 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, 2019	March 31, 2018
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 shareholder equity, are:

- to safeguard ATBSI's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the ATBIS Board of Directors from time to time;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain adequate risk-adjusted capital ("RAC") as required by IIROC.

The capital structure of ATBSI is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued or restricting dividends. In support thereof, management reviews the financial position of ATBSI on a monthly 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, 2019, ATBSI had RAC of $21,460 (March 31, 2018 - $16,477), 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 throughout the years ended March 31, 2019 and March 31, 2018.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

10. 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 (note 5). ATB also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)). ATBSI does not transact with AltaCorp. A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2019 $	March 31, 2018 $
	Revenue			
ATBIM	Trailer fees	Trailer fees and mutual fund commissions	61,582	61,341
ATBIM	Relationship management fees	Relationship management fees	3,737	3,422
ATBIM	Management fees	Intercorporate management fees	16,758	13,126
ATBIA	Insurance referrals	Other contract revenue	34	82
ATBIA	Management fees	Intercorporate management fees	74	126
ATB	HISA trailer fees	Trailer fees and mutual fund commissions	1,282	1,472
ATB	GIC commissions	GIC commissions	2,747	3,249
ATB	Interest income	Interest income	99	51
ATB	Management fees	Intercorporate management fees	781	-
			87,094	**82,869**
	Administration and selling and other expenses			
ATB	Partnership development and employee recognition	Salaries and employee benefits	618	100
ATB	Account administration fee	Salaries and employee benefits	(100)	(49)
ATB	Rent	General and administrative expenses	3,862	3,587
ATB	Marketing and community sponsorships	General and administrative expenses	4,000	3,042
ATB	Off-book GIC credit	General and administrative expenses	(1,415)	-
ATB	IT	IT infrastructure and services	7,233	4,336
ATB	Professional services	Professional fees	1,713	815
ATB	Interest expense and standby fees	Banking and interest charges	67	39
ATBIM	Account administration fee	Salaries and employee benefits	(5)	(15)
ATBIA	Account administration fee	Salaries and employee benefits	-	(1)
			15,973	**11,854**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The transactions with related parties listed above were subject to annual service level agreements (and amendments) made effective April 1, 2018 (for the year ended March 31, 2019) and April 1, 2017 (for the year ended March 31, 2018).

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, 2019	March 31, 2018
	$	$
Short-term employee benefits	2,618	2,462
Deferred compensation	712	539
Retirement and post employment benefits	289	246
	3,619	**3,247**

A portion of the compensation paid by ATBSI for key management personnel is recovered by the Company through the intercorporate management fees charged to ATBIM, ATBIA and ATB (note 2 l)).

Employee Achievement Notes

ATB sells Principal-at-Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Wealth brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBSI. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

The rebranding and reorganization of ATBIS into ATB Wealth does not change the manner in which Achievement Notes are valued. ATB Wealth's results are a combination of ATBSI, ATBIM, ATBIA and Private Banking. These combined results are now published in ATB's quarterly and annual reporting. The basis of reporting for ATB Wealth is different than the legal entity results of ATBSI, ATBIM and ATBIA from which the Achievement Note valuation is derived.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note;
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATB Wealth executives); and,
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is a risk, if the valuation decreases, that the note holder will lose some or all of the original investment.There is no public market for these notes, and the valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2019, the liability recorded by ATB with regards to the Achievement Notes owned by the employees of ATBSI, or previously allocated to ATBSI as part of shared management services, is as follows:

	March 31, 2019	March 31, 2018
	$	$
Liability at beginning of year	34,482	29,158
New subscriptions	2,196	1,648
Redemptions	(3,313)	(874)
Appreciation and vesting	3,418	4,550
Liability at end of year	**36,783**	**34,482**

11. Employee Future Benefits

i) Incentive and other compensation payable

	March 31, 2019	March 31, 2018
	$	$
Incentive compensation plan payable	4,201	4,305
LTIP payable - current portion	688	406
Recorded in current liabilities	**4,889**	**4,711**
LTIP payable - long-term portion	749	661
NSP payable	874	554
Recorded in long-term liabilities	**1,623**	**1,215**

ii) 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, or to an RRSP, RESP, or ATB mortgage. For the year ended March 31, 2019, expenses related to the flexible pension plan, which are recorded in salaries and employee benefits, were $4,337 (March 31, 2018 – $3,789).

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

iii) Notional Supplemental Plan

The change in the carrying value of the NSP for periods presented is as follows:

	March 31, 2019	March 31, 2018
	$	$
Carrying amount at beginning of year	554	421
Transfer to ATBSI	49	-
Employer contributions	230	106
Employee contributions	41	27
Gains and losses on notionally invested amounts	17	-
Settled	(17)	-
Carrying amount at end of year	**874**	**554**

iv) Incentive compensation plan

As at March 31, 2019, the Company had accrued and expensed $4,201 (March 31, 2018 - $4,305) for variable compensation plans related to the achievement of goals and performance targets (note 2 m) iii)).

For LTIP (note 2 m) iv)), amounts as at March 31, 2019 are as follows:

Fiscal Year Issued	LTIP Grants Issued	Allowance for Early Termination	Vested	PV of the Grants Vested
	$	$	$	$
2017	688	-	688	688
2018	813	41	515	497
2019	853	43	270	252
Total	**2,354**	**84**	**1,473**	**1,437**

The value presented for LTIP grants issued includes the appreciation and depreciation of those awards. Of the $1,437 (March 31, 2018 - $1,067) present value of the obligation that has vested, $688 (March 31, 2018 - $406) is included in the current portion of the incentive compensation payable and $749 (March 31, 2018 - $661) is included in the long-term portion. The related expense of $835 (March 31, 2018 - $712) is recorded in incentive compensation expenses.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

v) Due from Advisors

For a period of time, the Company offered low-interest loans to advisors. No new loans are currently being offered by the Company. Loans to advisors bear interest at 2% (March 31, 2018 - 1%). On initial recognition, the loans are discounted using market rates of interest for similar loans of 9% (March 31, 2018 - 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.

	March 31, 2019	March 31, 2018
	$	$
Face value - current	202	310
Present value discount - current	(5)	(52)
Allowance for doubtful accounts	(3)	(7)
Other expenses	328	323
Due from Advisors - Current	**522**	**574**
Face value - long-term	351	667
Present value discount - long-term	(61)	(117)
Allowance for doubtful accounts	(5)	(16)
Due from Advisors - Long-term	**285**	**534**

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

12. Disaggregation of Revenues from Contracts with Customers

Nature of revenue	Customer	March 31, 2019 $	March 31, 2018 $
Recognized over time - Based on assets under administration			
Trailer fees and mutual fund commissions	ATBIS Funds	61,582	61,340
Trailer fees and mutual fund commissions	Third parties	3,730	4,459
Trailer fees and mutual fund commissions	ATB (HISA)	1,282	1,472
Fee-based revenue	ATBSI clients	37,920	29,599
Relationship management fees	ATBIM	3,737	3,422
GIC commissions	ATB	542	1,613
Other contract revenue	Third parties	108	77
		108,901	101,982
Recognized over time - Other			
Intercoporate management fees (Note 10)	ATB, ATBIM, ATBIA	17,613	13,252
Client account fees	ATBSI clients	1,917	1,998
		19,530	15,250
Recognized at a point in time			
Securities commissions	ATBSI clients	546	615
Client account fees	ATBSI clients	413	350
Other contract revenue	ATBIA	35	82
GIC commissions	ATB	2,205	1,636
		3,199	2,683
Total revenues from contracts with customers		**131,630**	**119,915**

Amounts presented for the year ended March 31, 2018 were prepared under IAS 38 and, therefore, may not be directly comparable with amounts presented for the year ended March 31, 2019 (note 4(i)).

13. Credit Facility

ATBSI has access to a $10,000 (March 31, 2018 - $10,000) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which was 3.70% at March 31, 2019 (March 31, 2018 – 3.20%). No amounts were drawn as at March 31, 2019 (March 31, 2018 - $877) and a standby fee of $25 (March 31, 2018 - $25) was paid during the year on the undrawn portion and is included in banking and interest charges.

ATB Securities Inc.
Notes to the Financial Statements
For the year ended March 31, 2019 ($ thousands)

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	$
2020	2,239
2021	1,223
2022	411
2023	91
	3,964

15. Legal Claim

The Company received a statement of Claim for Wrongful Dismissal from a former employee on June 26, 2018. As of March 31, 2019, a liability has not been recognized as Management is in the process of evaluating the merits of the claim. As of the date of these financial statements the likelihood of a loss is not determinable.

16. Comparative Figures

In addition to the impacts of adopting IFRS 9 described in note 4 i), certain comparative figures have been reclassified to conform with the current year's presentation. Amounts exchanged with ATB were reclassified from financing activities to operating activities in the Statement of Cash Flows (and combined with amounts previously recorded as PILOT payable), as ATBSI no longer requires its parent as a source of long-term financing. In adopting IFRS 15, amounts previously presented as Other revenue were reclassified. Finally, income associated with holding T-bills was reclassified from Other revenue to interest income.

	Revised Prior Year Presentation March 31, 2018 $	Prior Year Presentation March 31, 2018 $
Statement of Operations		
Relationship management fees	3,422	-
Interest income	740	389
Other contract revenue	160	-
Other income (losses)	6	435
Client referral fees	-	3,504
Statement of Cash Flows		
PILOT Payable	-	26
Due to ATB	1,505	1,479

ALTACORP CAPITAL INC.

Consolidated Financial Statements

March 31, 2019

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of AltaCorp Capital Inc.

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of AltaCorp Capital Inc. (the Group), which comprise the consolidated statements of financial condition as at March 31, 2019, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the 18 month period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2019, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Other information

The financial statements of AltaCorp Capital Inc. are included in the Annual Report of the Ministry of Treasury Board and Finance that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the Annual Report of the Ministry of Treasury Board and Finance, but does not include the financial statements and my auditor's report thereon. The Annual Report of the Ministry of Treasury Board and Finance is expected to be made available to me after the date of this auditor's report.

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

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

May 10, 2019
Edmonton, Alberta

ALTACORP CAPITAL INC.
Consolidated Statements of Financial Condition

March 31, 2019, with comparative information as at September 30, 2017
(in Canadian dollars)

	March 31, 2019	September 30, 2017
Assets		
Current assets:		
Cash (note 3)	$ 4,212,650	$ 2,823,449
Marketable securities at fair value (note 4)	33,088,913	40,029,687
Accounts receivable (note 5)	921,291	1,775,133
Due from carrying brokers (note 6)	292,707	566,592
Prepaid expenses	802,834	714,178
Income tax receivable	412,709	-
	39,731,104	45,909,039
Non-current assets:		
Property and equipment (note 7)	1,597,453	1,814,342
Accounts receivable (note 5)	150,063	793,670
Deposits with carrying brokers (note 6)	590,786	569,182
Deferred income tax asset (note 9)	72,005	494,254
	$ 42,141,411	$ 49,580,487
Liabilities and Shareholders' Equity		
Current liabilities:		
Liability to issuer	$ 16,875,000	$ 31,109,500
Marketable securities, short at fair value (note 4)	50,012	464,391
Subordinated loan (note 13)	13,750,000	10,250,000
Accounts payable and accrued liabilities (note 5)	2,178,238	1,954,051
Due to carrying brokers (note 6)	159,589	1,019,562
Deferred leasehold inducements	107,406	168,845
	33,120,245	44,966,349
Non-current liabilities:		
Deferred leasehold inducements	547,670	647,341
	33,667,915	45,613,690
Shareholders' equity:		
Share capital (note 8)	6,391,675	6,517,105
Accumulated other comprehensive income	308,016	194,343
Retained earnings (deficit)	1,773,805	(2,744,651)
Total Shareholders' equity	8,473,496	3,966,797
Commitments and guarantee (note 10)		
	$ 42,141,411	$ 49,580,487

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

Original signed by
Director

Original signed by
Director

ALTACORP CAPITAL INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017
(in Canadian dollars)

	March 31, 2019	September 30, 2017
Revenue:		
Agency commissions	$ 9,821,203	$ 7,859,491
Corporate finance fees	14,851,044	9,197,390
Advisory fees	14,315,215	3,936,936
Market making	1,171,126	622,236
Interest and other	5,895,664	1,472,580
Realized gain on inventory	9,293	276
Unrealized gain on broker warrants	1,138,404	–
Research fees	815,658	904,049
Foreign exchange loss	–	(1,779)
	48,017,607	23,991,179
Direct costs:		
Commissions expense	10,008,078	5,606,234
Clearing costs	1,534,305	826,302
	11,542,383	6,432,536
	36,475,224	17,558,643
Expenses:		
Salaries, benefits and bonuses (note 13)	14,292,351	8,177,079
General administrative expenses (note 13)	14,539,442	8,865,495
Depreciation and amortization	481,911	366,103
Interest expense (note 13)	1,008,918	598,835
	30,322,622	18,007,512
Income (loss) before income taxes	6,152,602	(448,869)
Income taxes (recovery) (note 9):		
Current	218,125	42,133
Deferred	422,249	(527)
	640,374	41,606
Net income (loss) for the year	5,512,228	(490,475)
Other comprehensive income (loss):		
Foreign currency translation of foreign operations	113,673	(86,325)
Net comprehensive income (loss)	$ 5,625,901	$ (576,800)

See accompanying notes to consolidated financial statements.

ALTACORP CAPITAL INC.

Consolidated Statements of Change in Shareholder's Equity

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017
(in Canadian dollars)

	Share capital	Accumulated other comprehensive income	Deficit	Total equity
Balance at September 30, 2016	$ 6,927,303	$ 280,668	$ (2,528,382)	$ 4,679,589
Net loss	–	–	(490,745)	(490,475)
Other comprehensive loss	–	(86,325)	–	(86,325)
Shares repurchased (note 8)	(416,783)	–	274,206	(142,577)
Shares issued (note 8)	80,457	–	–	80,457
Share purchase loan (note 8)	(73,872)	–	–	(73,872)
Balance at September 30, 2017	$ 6,517,105	$ 194,343	$ (2,744,651)	$ 3,966,797
Net income	–	–	5,512,228	5,512,228
Other comprehensive income	–	113,673	–	113,673
Shares repurchased (note 8)	(2,274,304)	–	(993,772)	(3,268,076)
Shares issued (note 8)	2,223,812	–	–	2,223,812
Share purchase loan (note 8)	(74,938)	–	–	(74,938)
Balance at March 31, 2019	$ 6,391,675	$ 308,016	$ 1,773,805	$ 8,473,496

See accompanying notes to consolidated financial statements.

ALTACORP CAPITAL INC.

Consolidated Statements of Cash Flows

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017
(in Canadian dollars)

	March 31, 2019	September 30, 2017
Operations:		
Net income (loss) for the year	$ 5,625,901	$ (490,475)
Items not involving cash:		
Foreign currency translation	(113,673)	(86,325)
Depreciation and amortization	481,911	366,103
Deferred income tax provision (recovery)	422,249	(527)
Gain on disposal of property and equipment	(2,375)	–
	6,414,013	(211,224)
Change in non-cash working capital:		
Marketable securities owned at fair value	6,940,774	(30,984,542)
Due from carrying brokers	273,885	(41,447)
Accounts receivable	1,541,233	4,695,996
Prepaid expenses	(88,656)	(189,334)
Deferred leasehold inducements	(161,110)	(132,283)
Income taxes receivable	(412,709)	(14,573)
Accounts payable and accrued liabilities	224,187	(3,924,141)
Liability to issuer	(14,234,500)	29,509,500
Due to carrying brokers	(859,973)	(423,857)
Marketable securities short at fair value	(414,379)	38,936
	(7,191,248)	(1,465,745)
	(777,235)	(1,676,969)
Investing:		
Purchase of property and equipment	(267,696)	(76,441)
Deposits with carrying brokers	(21,604)	14,709
	(289,300)	(61,732)
Financing:		
Subordinated loan advances	28,250,000	2,200,000
Subordinated loan repayments	(24,750,000)	(2,607,500)
Redemption of share capital	(3,268,076)	(157,267)
Issuance of share capital	2,223,812	–
	2,455,736	(564,767)
Net increase (decrease) in cash for the year	1,389,201	(2,303,468)
Cash, beginning of year	2,823,449	5,126,917
Cash, end of year	$ 4,212,650	$ 2,823,449

See accompanying notes to consolidated financial statements.

ALTACORP CAPITAL INC.
Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

1. Nature of Business:

AltaCorp Capital Inc. (the "Company") was incorporated on May 17, 2010 under the Alberta Business Corporations Act and commenced operations on January 19, 2011. The Company's wholly-owned subsidiary, AltaCorp Capital (USA) Inc. (the "Subsidiary") was incorporated on June 21, 2010 under the Alberta Business Corporations Act and commenced operations on April 5, 2011. The Company's address is 410, 585 8th Ave SW Calgary Alberta T2P 1G1.

The Company is registered as a Type 2 Introducing Broker, under the regulatory authority and provisions of the Investment Industry Regulatory Organization of Canada ("IIROC") and conducts its operations under an agreement dated October 16, 2012 with National Bank Independent Network ("NBIN"), which acts as the "Carrying Broker". The agreement does not contain a termination date, but there is a termination charge during the first three years of the agreement. NBIN performs certain securities trading and clearing activities and record keeping as the agent for the Company for a fee based on the number of trades executed, settled and cleared on behalf of the Company. As a result, NBIN is responsible for the Company's client accounts subject to indemnification by the Company for any related losses. The Company is a member of the Canadian Investor Protection Fund ("CIPF") and provides institutional trading as well as corporate underwriting and advisory services.

The Subsidiary is registered as a broker/dealer with the Financial Industry Regulatory Authority, Inc. ("FINRA") and is a member of the Securities Investor Protection Corporation ("SIPC"). The Subsidiary specializes in investments in the Canadian energy industry and deals exclusively with institutional clients. The Subsidiary became an Introducing Broker to Apex Clearing Corporation ("Apex Clearing") on June 5, 2012. Apex Clearing performs certain securities clearing activities and record keeping as the agent for the Subsidiary for a fee based on the number of trades executed, settled and cleared on behalf of the Subsidiary. The Subsidiary's Fully Disclosed Clearing Agreement with Apex Clearing expires August 28, 2019.

2. Basis of accounting and significant accounting policies:

Significant accounting policies applied in the preparation of the consolidated financial statements are as follows:

(a) Basis of measurement and consolidation:

These consolidated financial statements have been prepared to meet the requirements of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and include the accounts of the Company and its Subsidiary. All intercompany transactions and balances have been eliminated.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

2. Basis of accounting and significant accounting policies (continued):

(a) Basis of measurement and consolidation (continued):

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Subsidiary has a functional currency of U.S. dollars.

(b) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been authorized by the Board of Directors on May 10, 2019 and include all subsequent events up to that date.

(c) Use of estimates:

These consolidated financial statements, prepared in accordance with IFRS, include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these results.

(d) Revenue recognition:

Agency commissions revenue consists of revenue generated through traditional commission-based brokerage services, recognized on a trade date basis.

Corporate finance fees are comprised of fees earned when the Company acts as agent or underwriter in the distribution of the securities of issuers. Corporate finance fees are recorded at the time the transaction is completed and the related income is reasonably determinable and the amount is collectible.

Advisory fees are recorded, depending on the terms of the engagement agreement, at the time the transaction is completed or advice is provided, and the related income is reasonably determinable and collectible.

Market making consists of unrealized and realized profits and/or losses earned by the Company's Market Makers, recognized on a trade date basis.

Unrealized underwriting position gains or losses consist of the difference between the new issue price (excluding the underwriter's commission) and the fair value of the unsold position on a trade date basis.

ALTACORP CAPITAL INC.
Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

2. Basis of accounting and significant accounting policies (continued):

(d) Revenue recognition (continued):

Realized underwriting position gains or losses consist of the difference between the new issue price and the price the stock position was sold on a trade date basis.

Research fee revenue is earned as a result of providing research services to clients. The revenue is recognized once the services have been provided and the related income is reasonably determinable.

Interest and other income are recognized on an accrual basis using the effective interest method for interest-bearing instruments.

(e) Leasehold inducements:

Leasehold inducements are monies received on an operating lease for premises from the property owner. Inducements are amortized over the term of the lease and reduce lease expenses.

(f) Property and equipment:

Property and equipment are recorded at cost less amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Leasehold improvements	term of lease	straight-line method
Furniture and fixtures	20%	declining balance method
Computer equipment	45% and 55%	declining balance method
Computer software	100%	declining balance method.

One-half the normal amortization is charged in the year of acquisition for computer equipment, computer software and furniture and fixtures. The Company does not record amortization on its artwork since it has an indefinite useful life.

(g) Income taxes:

Income tax expense consists of current and deferred taxes. It is recognized in the consolidated statements of income and comprehensive income, except to the extent that the expense relates to items recognized in other comprehensive income or directly in shareholders' equity.

Current income tax is the expected tax payable or recoverable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or recoverable in respect of previous years. Current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

2. Basis of accounting and significant accounting policies (continued):

(g) Income taxes (continued):

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax assets are recognized to the extent that it is more likely than not that taxable profits will be available against which deductible temporary differences can be utilized and deferred tax liabilities are generally recognized for all taxable temporary differences. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets and liabilities are measured using rates that are expected to be applied to the temporary differences when they reverse. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax authority.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(h) Financial instruments:

The Company classifies and measures financial instruments in accordance with CPA Canada Handbook Section IAS 39, *Financial Instruments – recognition and measurement*. Section IAS 39 requires all financial assets and financial liabilities to be measured at their fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on the classification of the instruments. All financial instruments must be classified in one of the following categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables, and available-for-sale assets and other financial liabilities.

Financial assets and financial liabilities categorized as financial assets at fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in income immediately. IAS 39 permits an entity to designate any financial instrument as financial assets at fair value through profit or loss on initial recognition or on adoption of this standard even if that instrument would not otherwise meet the definition of financial assets at fair value through profit or loss as specified in the section, provided that the fair value of the financial instrument can be reasonably determined.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

2. Basis of accounting and significant accounting policies (continued):

(h) Financial instruments (continued):

The Company's financial instruments classified as financial assets and liabilities at fair value through profit or loss include cash, marketable securities owned and sold short at fair value, deposits with carrying brokers, and liability to issuer. The Company measures these instruments at fair value based on bid prices and any unrealized gains and losses are recognized in income.

Financial assets and financial liabilities classified as loans and receivable, held to maturity and other financial liabilities are measured at amortized cost. The Company classified accounts receivable and due from carrying brokers as loans and receivables, and accounts payable and accrued liabilities, due to carrying brokers, subordinated loan and income taxes payable as other financial liabilities.

(i) Securities owned:

Securities owned represent the Company's commitment to purchase any unsold securities from an issuer upon closing of a bought deal financing and market makers positions.

(j) Securities transactions:

Securities transactions and related revenues and expenses are recorded on a trade date basis. Transaction costs are expensed as incurred.

(k) Share purchase financing:

Loans granted to purchase shares of the Company are accounted for as an asset, provided the following criteria are met:

(i) the loan contains repayment terms and conditions similar to arm's-length market terms;

(ii) the borrower has the ability to repay the loan;

(iii) the borrower is subject to recourse in the event of defaulting on the loan; and

(iv) management's intention is to ensure repayment of the loan regardless of the share price of the Company.

If a share purchase loan does not meet the above criteria, it is accounted for as a reduction in the share capital of the Company.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

2. Basis of accounting and significant accounting policies (continued):

(l) Comprehensive income:

Other comprehensive income (loss) represents changes in shareholders' equity that result from unrealized gains and losses on financial assets classified as available for sale, unrealized foreign exchange gains and losses arising from the translation of the financial statements for self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income (loss), which is presented as a separate category of shareholders' equity on the consolidated statement of financial condition.

(m) Foreign currency transactions:

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency), which is U.S. dollars for the U.S. entity and Canadian dollars for the Canadian entity. For the purpose of the consolidated financial statements, the results and financial condition of each group entity are expressed in Canadian dollars, which is the presentation currency for the consolidated financial statements.

In preparing financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in the statement of comprehensive income in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the U.S. entity with the U.S. dollar as its functional currency is expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in shareholders' equity.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

2. Basis of accounting and significant accounting policies (continued):

(n) Future changes in accounting policies:

(i) Financial instruments:

During 2014 the IASB issued an amended IFRS 9 “Financial Instruments” to replace IAS 39 “Financial Instruments: Recognition and Measurement”. This standard addresses the classification and measurement of financial assets and liabilities. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables, to be replaced by amortized cost, fair value through other comprehensive income, and fair value through profit and loss. The basis of classification depends on the entity’s business model and contractual cash flow characteristics of the financial asset. The provisions of this standard apply to financial statements for accounting periods beginning on or after January 1, 2018, with early adoption permitted. The significant impacts of this standard will affect the classification and measurement of financial instruments, provisioning for credit losses, and hedging relationships. Given the Company’s business model, it is anticipated that the only significant impact the standard will have on the future financial statements will be those relating to the classification and disclosure of financial instruments.

(ii) Revenue from Contracts with Customers:

The IASB issued a new standard, IFRS 15, Revenue from Contracts with Customers, which will ultimately replace International Accounting Standard 11, Construction contracts and International Accounting Standard 18, Revenue. The standard will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of assessing the impact of this new standard and has not yet determined when it will adopt the new standard.

(ii) Leases:

In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance finance leases and off-balance sheet operating leases. Instead, IFRS 16 introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice, where lessors continue to classify leases as finance and operating leases. This new standard takes effect for annual reporting periods beginning on or after January 1, 2019, which will be necessary for the Company’s April 1, 2019 opening statement of financial condition. Early adoption is permitted for entities that also adopt IFRS 15. The Company is currently assessing the impact of this standard.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

3. Cash:

The Company has Canadian ("CDN") and United States ("US") currency on deposit at a Canadian financial institution. At March 31, 2019, these deposits consisted of CDN $2,441,191 and US $1,350,803 (September 30, 2017 – CDN $1,569,694 and US $993,169). The CDN dollar deposits earn no interest when the balance is $999,999 or less, and earn interest at the Alberta Treasury Branch ("ATB") prime rate less 1.85% per annum when the balance exceeds $1,000,000. The US dollar deposits earn at 1.45. At March 31, 2019, the Canadian prime rate was 3.95% per annum (September 30, 2017 – 3.2% per annum).

The Company has US and Peso currency on deposit with an Argentina financial institution. At March 31, 2019, these deposits consist of US $19,120 (September 30, 2017 - $10,285) and Peso $29,072 (September 30, 2017 - $15,278). These balances do not earn any interest.

4. Marketable securities and marketable securities, short:

An analysis of the fair value of securities owned by term to maturity is as follows:

	Term to maturity		March 31,	September 30,
	Within 1 year	No maturity	2019 Total	2017 Total
Common shares	$18,087,856	$ -	18,087,856	$ 10,314,869
Common shares, short	(50,012)	-	(50,012)	(464,391)
Bonds	15,001,057	-	15,001,057	29,714,818

5. Accounts receivable and accounts payable:

Accounts receivable consists of accrued commission and fee income from investment banking activities and employee receivables. The employee receivables do not bear interest and have no fixed redemption dates.

Accounts payable and accrued liabilities primarily consists of accrued compensation and amounts owing to vendors as of March 31, 2019 and September 30, 2017.

ALTACORP CAPITAL INC.
Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

6. Introducing broker agreements:

In accordance with the terms of the agreements with NBIN and Apex Clearing, the Company must maintain a minimum of CDN $250,000 and US $250,000 (in the form of cash or short term Government of Canada bonds) in a capital deposit account to be held by the Carrying Broker and Apex Clearing as long as the agreement is in effect and as such is not available for use by the Company. The Company currently maintains a Canadian Treasury bill which will mature on June 13, 2019 at a value of $256,711 (2017 – matured November 30, 2017 at a value of $257,182) with the Carrying Broker and US $250,000 cash (September 30, 2017 – US $250,000) with Apex Clearing.

The Company may be required to provide additional funds should the Carrying Broker's margin requirements change. NBIN is a regulated entity under the jurisdiction of IIROC and a member of the CIPF. Apex Clearing is a regulated entity under the jurisdiction of FINRA and a member of the SIPC.

The $292,707 receivable (September 30, 2017 - $566,592) from the Company's Carrying Brokers represents amounts due from NBIN and Apex Clearing for commissions earned and short inventory positions in the market makers accounts.

The $159,589 payable (September 30, 2017 - $1,019,562) to the Company's Carrying Brokers represents amounts due to NBIN and Apex Clearing for clearing trades and long inventory positions in the market makers accounts.

7. Property and equipment:

	Furniture, artwork and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
Cost:					
At September 30, 2016	$ 1,006,179	$ 454,471	$ 90,445	$2,751,091	$ 4,302,186
Additions	53,389	23,053	–	–	76,442
At September 30, 2017	$ 1,059,568	$ 477,524	$ 90,445	$2,751,091	$ 4,378,628
Additions	44,180	73,648	–	149,868	267,696
Disposals	(2,674)	–	–	–	(2,674)
At March 31, 2019	$ 1,101,074	$ 551,172	$ 90,445	$2,900,959	$ 4,643,650

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

8. Share capital (continued):

(b) Issued (continued):

	Shares	Amount
Class B shares – 2017:		
Balance, beginning of year	2,902,000	$ 712,660
Shares issued during the year	32,182	80,457
Shares repurchased during the year	(290,000)	(416,783)
Share purchase loan (note 13)	–	(73,872)
Balance, end of year	2,644,182	$ 302,462
Class B shares – 2019:		
Balance, beginning of period	2,644,182	$ 302,462
Shares issued during the period	1,129,800	2,223,812
Shares repurchased during the period	(1,280,550)	(473,804)
Share purchase loan (note 13)	–	(74,938)
Balance, end of period March 31, 2019	2,493,432	$ 1,977,532

9. Income taxes:

The provision for income taxes varies from that calculated by applying the combined statutory Canadian federal and provincial income tax rate as follows:

	18 months ended March 31, 2019	Year ended September 30, 2017
Statutory income tax rate	26.66%	27%
Expected income tax expense	$ 1,640,231	$ (121,194)
Effect of:		
Impact of change in tax rate	(533,163)	–
Small business deduction	–	69,574
Non-taxable income/ non-allowable expenses	(481,296)	93,226
Other	14,602	–
	$ 640,374	$ 41,606
Current income taxes	$ 218,125	$ 42,133
Deferred income taxes (recovery)	422,249	(527)
	$ 640,374	$ 41,606

ALTACORP CAPITAL INC.
Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

9. Income taxes (continued):

The components of the deferred income tax liability and asset are as follows:

	March 31, 2019	September 30, 2017
Deferred income tax asset:		
Non-capital loss carryforwards	$ –	$ 493,797
Deferred leasehold inducement	174,637	106,722
Donations	19,181	–
Other	9,308	–
Deferred income tax liability:		
Property and equipment	(131,121)	(106,265)
Net deferred income tax asset	$ 72,005	$ 494,254

10. Commitments and guarantee:

IIROC rules requires the Company and ATB Securities Inc. by virtue of common ownership, to guarantee the debts, liabilities, and obligations of their respective customers.

The Company has a long-term operating lease with respect to its Calgary premises, which expires April 30, 2025 and its Toronto premises which expires February 28, 2022. The leases contain a monthly charge for the common operating costs. Future annual minimum lease payments, inclusive of operating costs, GST and HST, are approximately as follows:

2020	$ 1,585,414
2021	1,607,102
2022	1,336,495
2023	1,121,517
2024	1,215,517
Thereafter	1,214,976

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

11. Fair value of financial instruments:

The fair value of financial assets and liabilities not carried at fair value approximate their carrying amounts due to the imminent or short term maturity of these financial assets and liabilities.

Fair value measurements are classified under a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liabilities either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial assets and liabilities measured at fair value as at March 31, 2019 and September 30, 2017 are summarized below:

March 31, 2019	Level 1	Level 2	Level 3	Total
Cash	$ 4,212,650	$ -	$ -	$ 4,212,650
Marketable securities	33,088,913	-	-	33,088,913
Marketable securities, short	(50,012)	-	-	(50,012)
Deposits with carrying brokers	590,786	-	-	590,786
Liability to issuer	(16,875,000)	-	-	(16,875,000)
	$ 20,967,337	$ -	$ -	$ 20,967,337

September 30, 2017	Level 1	Level 2	Level 3	Total
Cash	$ 2,823,449	$ -	$ -	$ 2,823,449
Marketable securities	40,029,687	-	-	40,029,687
Marketable securities, short	(464,391)	-	-	(464,391)
Deposits with carrying brokers	569,182	-	-	569,182
Liability to issuer	(31,109,500)	-	-	(31,109,500)
	$ 11,848,427	$ -	$ -	$11,848,427

There were no transfers between the three levels of the fair value hierarchy for the period ended March 31, 2019 and September 30, 2017.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

12. Financial instruments and risk management:

The Company's financial instruments are represented by cash, marketable securities owned and sold short at fair value, accounts receivable, due to (from) carrying broker, deposits with carrying broker, liability to issuer, and accounts payable and accrued liabilities and subordinated loan. There are various risks inherent in financial instruments including market risk (which consists of fair value risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. These risks are managed by the Company on a daily basis and are described further below.

(a) Market risk:

Market risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices. The Company segregates market risk into three categories: fair value risk, interest rate risk and foreign exchange risk.

(b) Fair value risk:

The Company is exposed to fair value as a result of its participation in corporate financing bought deals and through securities owned. Securities held for trading are valued based on quoted bid market prices, net of any valuation allowance and, as such, changes in fair value affect income as they occur. The Company mitigates its fair value risk exposure through controls to limit concentration levels and capital usage within its inventory account.

The following table summarizes the effect on net income for the year as a result of fair value changes in financial instruments. This analysis assumes all other variables remain constant.

March 31, 2019	Carrying value	Effect of a 10% increase in fair value on income	Effect of a 10% decrease in fair value on income
Marketable securities	$ 33,088,913	$ 3,308,891	$(3,308,891)
Marketable securities, short	(50,012)	(5,001)	5,001

September 30, 2017	Carrying value	Effect of a 10% increase in fair value on income	Effect of a 10% decrease in fair value on income
Marketable securities	$ 40,029,687	$ 4,002,969	$ (4,002,969)
Marketable securities, short	$ (464,391)	$ (46,439)$	46,439

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

12. Financial instruments and risk management (continued):

(c) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Company. The Company incurs interest rate risk on its own cash balances. All cash matures within two months. The Company does not hedge its exposure to interest rate risk as it is minimal. The Company has a subordinated loan with a variable interest rate.

The increase or decrease in income for each 100 basis points change in interest rates on cash and cash equivalents, assuming all other variables remain constant, is not material. An increase or decrease in income for each 100 basis points change in interest on the subordinated loan, assuming all other variables remain consistent, would be $137,500 (2017 - $102,500).

(d) Foreign exchange risk:

Foreign exchange risk arises from the possibility that changes in the exchange rates for foreign currencies will result in losses. The Company is exposed to foreign exchange risk to the extent of balances, transactions and cash flows that occur in US dollars.

The following table summarizes the effect on net income of a 10% fluctuation in the value of the US dollar on US dollar balances held as at March 31, 2019. This analysis assumes all other variables remain constant.

March 31, 2019	Carrying value	Income effect of a 10% increase in the value of the US dollar	Income effect of a 10% decrease in the value of the US dollar
Net unhedged balance sheet exposure to US dollars	$ 1,494,542	$ 149,454	$ (149,454)

September 30, 2017	Carrying value	Income effect of a 10% increase in the value of the US dollar	Income effect of a 10% decrease in the value of the US dollar
Net unhedged balance sheet exposure to US dollars	$ 1,157,149	$ 115,715	$ (115,715)

ALTACORP CAPITAL INC.
Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

12. Financial instruments and risk management (continued):

(e) Credit risk:

Credit risk is the risk of loss associated with a counterparty's liability to fulfill its payment obligations. Credit risk arises from cash, marketable securities at fair value, accounts receivable and due from carrying broker. The maximum exposure of the Company to credit risk before taking into account any collateral held or other credit enhancements is the carrying values of the financial instruments as disclosed in the consolidated financial statements as at March 31, 2019 and September 30, 2017.

(e) Credit risk (continued):

The Company is also exposed to the risk that counterparties to transactions do not fulfill their obligations. Counterparties primarily include the Company's Carrying Brokers, investment dealers and financial institutions and employee receivables. As at March 31, 2019, the Company's most significant concentration is with investment dealers and its financial institution (2017 – investment dealers and its financial institution); accounts receivable are subject to additional concentration of credit risk from 21 debtors (2017 – 29 debtors) comprising 44% (2017 – 70%) of the carrying amount. Management believes that this is in the normal course of business and does not anticipate loss for non-performance. Employee receivables relating to Market Making activities total $nil (2017 - $341,254), and management believes that these unimpaired amounts are collectible in full over several years, based on historical payment behavior and analysis of risk.

(f) Liquidity risk:

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they become due, as well as ensuring that adequate funds exist to support business strategies and operational growth. The Company's business requires capital for operating and regulatory purposes. Total current assets reflected on the statement of financial condition amount to $39,731,104 which exceed current liabilities (excluding subordinated loan) of $19,370,245 that are anticipated to be paid within 12 months from the statement of financial position date. Additionally, the Company has a subordinated loan of $13,750,000 owing to a Class A shareholder (see note 13). Additional information regarding the Company's capital structure and capital management objectives is presented in note 14.

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

13. Related party transactions:

Shareholders, Directors and other Key Management Personnel:

During the period ended March 31, 2019, the Company incurred $1,008,309 (2017 - $598,363) in interest expense on a subordinated loan provided by the Alberta Treasury Branches ("ATB"), a Class A shareholder of the Company. This amount is included in interest expense on the consolidated statement of income and comprehensive income. The subordinated loan balance bears interest of ATB prime plus 2% to prime plus 3.5% per annum, and the effective rate of interest for 2019 was 6.28% (2017 – 6.0 %). There is no security on this loan.

	March 31, 2019	September 30, 2017
Loan balance, beginning of year	$ 10,250,000	$ 10,657,500
Additional borrowing	28,250,000	2,200,000
Repayments	(24,750,000)	(2,607,500)
Balance, end of year	$ 13,750,000	$ 10,250,000

As at March 31, 2019, $3,849 was owed to ATB Financial Mastercard (2017 - $38,310).

During the period ended March 31, 2019 the Company paid ATB Financial rent of $1,172,739 (2017 - $781,826).

On April 1, 2016 the Company signed a joint marketing agreement with ATB which allowed the Company and ATB to share profits relating to debt capital markets ("DCM"). During the period ended March 31, 2019 the Company received $100,000 (2017 - $200,000) in consulting fees from ATB and incurred expenses of $551,776 (2017 - $669,671) in DCM advisory fees and $65,000 (2017 - $nil) in allocation fees.

During the period ended March 31, 2019, the Company incurred $5,629,349 in compensation and other short-term benefits to key management personnel (2017 - $2,681,660). No other benefits have been provided. As at March 31, 2019, $nil was owed to these individuals (2017 - $nil).

During 2017, the Company advanced $350,000 to a former shareholder. This loan is unsecured, bears no interest and has no fixed terms of repayment. As at March 31, 2019, an allowance for doubtful accounts of $350,000 has been provided for against this loan (2017 - $nil).

During 2016, the Company advanced $30,000 to an employee to purchase 12,000 of the Company's Class B common shares. This loan is secured by these Class B shares, does not bear interest, and will be forgiven evenly over a six-year term contingent upon the employee's continuing employment with the Company. If the employee ceases to be employed by the Company, the remaining unforgiven amount is due immediately. The balance outstanding at March 31, 2019 is $16,347 (2017 - $24,643).

ALTACORP CAPITAL INC.

Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

13. Related party transactions:

Shareholders, Directors and other Key Management Personnel:

During 2017, the Company advanced $80,455 to an employee to purchase 32,182 of the Company's Class B common shares. This loan is secured by these Class shares, does not bear interest, and will be forgiven evenly over a six-year term contingent upon the employee's continuing employment with the Company. If the employee ceases to be employed by the Company, the remaining unforgiven amount is due immediately. The balance outstanding at March 31, 2019 is $58,591 (2017 - $78,158).

Officers, directors, employees and their related companies conduct business with the Company on substantially similar terms and conditions as external clients, subject to regulatory requirements.

14. Capital management:

The Company requires capital for operating and regulatory purposes, including the funding of existing and future operations and for maintaining sufficient regulatory capital. The fundamental components of the Company's capital structure include shareholders' equity, which is comprised of share capital, accumulated other comprehensive income and retained earnings. The following table summarizes the Company's capital as at March 31, 2019:

Type of capital		Carrying amount
Share capital	$	6,391,675
Accumulated other comprehensive income		308,016
Retained earnings		1,773,805
Total shareholders' equity	$	8,473,496

The Company's capital management objectives and policies are designed to ensure that an adequate level of capital is maintained at all times to support current and future operations, to meet all financial obligations and to comply with the rules of IIROC and FINRA. The Company is required to maintain a prescribed minimum level of Risk Adjusted Capital ("RAC") of $250,000 calculated in accordance with such requirements as IIROC may from time to time prescribe. The Subsidiary is subject to Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission. The Subsidiary computes its net capital under the basic method and is required to maintain minimum net capital, as defined, equal to the greater of $250,000 or 6 2/3% of aggregate indebtedness, as defined, at all times. The uses of capital which require monitoring on a daily basis include outstanding trades and security positions, underwriting commitments and

ALTACORP CAPITAL INC.
Notes to Consolidated Financial Statements

18 month period ended March 31, 2019, with comparative information for the year ended September 30, 2017

14. Capital management (continued):

other working capital requirements. Compliance with these requirements may require the Company to keep sufficient cash and other liquid assets on hand to maintain regulatory capital requirements rather than using these liquid assets in connection with its business. The Company and its Subsidiary were in compliance with all of the minimum regulatory capital requirements to which it is subject as at March 31, 2019 and September 30, 2017.

15. Comparative information:

Certain comparative figures have been reclassified to reflect the presentation format of the current period.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

December 31, 2018

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

Opinion

I have audited the financial statements of the Credit Union Deposit Guarantee Corporation which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Other information

Management is responsible for the other information. The other information comprises the information included in the Credit Union Deposit Guarantee Corporation Annual Report, but does not include the financial statements and my auditor's report thereon.

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

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

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Credit Union Deposit Guarantee Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union Deposit Guarantee Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the entity to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the audit. I remain solely responsible for my audit opinion.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

I am responsible for expressing an independent opinion on the financial statements of the Credit Union Deposit Guarantee Corporation and reporting that opinion to you based on my audit.

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

March 13, 2019
Edmonton, Alberta

Statement of Financial Position

AS AT DECEMBER 31
(THOUSANDS OF DOLLARS)

	Notes	2018	2017
ASSETS			
Cash and cash equivalents	4	$ 3,932	$ 3,226
Assessments receivable		3,549	3,461
Accrued interest receivable and prepaid expenses		1,342	1,133
Current tax receivable		673	489
Deferred tax assets		1,087	1,381
Investments	5,6	356,615	337,536
Property, equipment and intangible assets		262	294
TOTAL ASSETS		**367,460**	**347,520**
LIABILITIES			
Accounts payable and accrued liabilities		$ 450	$ 444
Unclaimed credit union balances	8	2,488	2,434
TOTAL LIABILITIES		**2,938**	**2,878**
EQUITY			
Deposit guarantee fund		367,187	349,369
Accumulated other comprehensive loss		(2,665)	(4,727)
TOTAL EQUITY		**364,522**	**344,642**
TOTAL LIABILITIES AND EQUITY		**$ 367,460**	**$ 347,520**
Provision for financial assistance	7		
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 13, 2019

Original signed by
John McGowan
Board Chair

Original signed by
Jim McKillop
Chair, Audit and Finance Committee

Statement of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31
(THOUSANDS OF DOLLARS)

	Notes	2018	2017
Revenue			
Assessment revenue	9	$ 19,656	$ 19,140
Investment income	9	5,861	9,496
		25,517	**28,636**
Expenses			
Administration expenses	10	6,992	7,247
		6,992	**7,247**
Income before income taxes		18,525	21,389
Income tax (recovery) expense	11	(238)	532
NET INCOME		**$ 18,763**	**$ 20,857**
OTHER COMPREHENSIVE LOSS, NET OF TAX	3		
Items that will be reclassified to net income			
Net unrealized gain (loss) on fair value through other comprehensive income financial instruments			
Other comprehensive loss		(1,230)	(6,664)
Income tax recovery		246	1,499
Reclassification to net income, net of tax		2,101	80
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		**1,117**	**(5,085)**
COMPREHENSIVE INCOME		**$ 19,880**	**$ 15,772**

The accompanying notes are part of these financial statements.

Statement of Change in Equity

FOR THE YEARS ENDED DECEMBER 31
(THOUSANDS OF DOLLARS)

	Notes	Deposit Guarantee Fund	Accumulated Other Comprehensive Income (Loss)	Total Equity
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**
Impact of adopting IFRS 9	3	(945)	945	-
Net income		18,763	-	18,763
Other comprehensive income, net of tax		-	1,117	1,117
Balance as at December 31, 2018		**$ 367,187**	**$ (2,665)**	**$ 364,522**

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the years ended December 31
(Thousands of Dollars)

	2018	2017
Operating activities:		
Net Income	$ 18,763	$ 20,857
Adjustments for:		
Amortization	116	103
Investment income	700	(2,757)
Fair value adjustment	302	-
Impairment loss	32	-
Deferred income taxes	(52)	17
Increase in assessments receivable	(88)	(63)
(Increase) decrease in accrued interest receivable and prepaid expenses	(209)	163
Increase current tax receivable	(184)	(565)
Increase (decrease) in accounts payable and accrued liabilities	6	(66)
Increase in long-term unclaimed credit union balances	54	25
Cash flows from operating activities	**19,440**	**17,714**
Investing activities:		
Purchase of investments	(119,271)	(80,762)
Proceeds from sales of investments	100,621	60,363
Purchase of property, equipment and intangible assets	(84)	(204)
Cash flows used in investing activities	**(18,734)**	**(20,603)**
Increase (decrease) in cash and cash equivalents	706	(2,889)
Cash and cash equivalents, at beginning of year	3,226	6,115
Cash and cash equivalents, at end of year	$ 3,932	$ 3,226

The accompanying notes are part of these financial statements.

Notes to Financial Statements

(Thousands of dollars)

1. Nature of Organization

The Credit Union Deposit Guarantee Corporation ("the Corporation") was established in 1974 and operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. It is a provincial agency without share capital. The mandate of the Corporation is to provide risk-based regulatory oversight and a deposit guarantee to enable a safe and sound credit union system in Alberta.

The Corporation is located in Canada. The address of the Corporation's office is 20th Floor, 10104 – 103 Avenue, Edmonton, Alberta T5J 0H8.

To fulfill its mandate the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund ("the Fund"). The Corporation is funded by assessments from credit unions.

The *Credit Union Act* provides that the Government of Alberta ("the Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2018, credit unions in Alberta held deposits, including accrued interest, totaling $22,305,630 (2017: $21,439,839).

In cases where a credit union is experiencing financial difficulty, the Corporation implements an intervention strategy that may result in placing the credit union under supervision. The Corporation provides financial assistance, support and direction in planning, policy and operational matters for supervised credit unions.

2. Basis of Presentation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were approved by the Board of Directors on March 13, 2019.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and expressed in thousands of dollars.

The Corporation presents its Statement of Financial Position in order of liquidity.

3. Significant Accounting Policies

3.1 Changes in accounting policies

IFRS 9 Financial Instruments

On January 1, 2018, the Corporation adopted IFRS 9 *Financial Instruments*, which replaced the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The Corporation did not early adopt IFRS 9.

As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative figures. Any adjustments to the carrying amounts of the financial assets and liabilities at the date of transition were recognized in the opening retained earnings or accumulated other comprehensive income (AOCI) of the current period.

Classification and measurement of financial assets

The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. With the adoption of IFRS 9, the Corporation now classifies and measures its financial assets as:

- amortized cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit and loss (FVTPL)

The classification and measurement for financial assets are based on the Corporation's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest (SPPI).

The Corporation determines its business model that best reflects how the financial assets are managed based on observable factors and relevant objective evidence. The Corporation has determined its business models as follows:

- Held-to-collect: Assets held to collect the contractual principal and interest cash flows.
- Held-to-collect-and-sell: Both collecting contractual cash flows and selling are fundamental to achieving the objective of the business.
- Other business model: Neither of the above and represent business objectives where assets are managed on a fair value basis.

Financial assets are measured at amortized cost if they are held within the held-to collect business model and the contractual cash flows pass the SPPI test.

Financial assets in the held-to-collect-and-sell business model where the contractual cash flows meet the SPPI test are measured at FVOCI. The financial assets measured at FVOCI are recorded at fair value with unrealized gains and losses included in AOCI until realized when the cumulative gain or loss is transferred to net income. Interest income and impairment losses, are recognized in Statement of Comprehensive Income.

Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the financial assets is recognized in the Statement of Comprehensive Income in the period in which it arises.

The Corporation elected, at initial recognition, to irrevocably designate equity investments at FVOCI. The fair value changes are recorded in OCI, with any gains or losses when selling the asset not reclassified in profit or loss. Dividend income is recorded in Statement of Comprehensive Income.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The Corporation recognizes ECL for financial assets classified as FVOCI and amortized cost.

For financial assets classified as FVOCI, the Corporation uses a model to calculate the loss allowance that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The calculated ECL does not reduce the carrying amount in the

Statement of Financial Position, which remains at fair value. Instead, the allowance is recognized in OCI with a corresponding charge to Statement of Comprehensive Income.

The Corporation assesses quarterly whether the financial assets classified as FVOCI have experienced a significant increase in credit risk. Since the financial assets measured at FVOCI are investment grade and considered low credit risk, the Corporation measures loss allowance at 12-month ECL, instead of lifetime ECL.

A simplified approach of the expected loss model is applied to trade receivables that do not contain a significant financing component. The simplified approach does not require the tracking of changes in credit risk but requires the recognition of lifetime ECLs at all times. The Corporation applied the simplified approach and used a provision matrix as a practical expedient for determining ECLs on trade receivables.

Financial Liabilities

IFRS 9 largely retains requirements in IAS 39 for the classification of financial liabilities. There are no changes to financial liabilities which are classified and measured at amortized cost.

Summary of impact upon adoption of IFRS 9 - Classification and measurement

The category and the carrying amount of financial assets accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	IAS 39	IFRS 9	
Financial assets	**Measurement Category**	**Measurement Category**	**Carrying Amount**
Cash and cash equivalents	Loans and receivables	Amortized cost	3,226
Assessment receivable	Loans and receivables	Amortized cost	3,461
Accrued interest receivable	Loans and receivables	Amortized cost	1,085
Investments			
Segregated portfolio	Available for sale	FVOCI	284,066
Bond Pool	Available for sale	FVTPL	53,355
Equity investments	Available for sale	FVOCI (Designated)	115

There were no changes to the carrying amount of financial assets with the adoption of IFRS 9.

As of January 1, 2018, using the expected loss model, a loss allowance of $37 was recognized.

The following table reconciles the equity as of January 1, 2018 as a result of adopting IFRS 9.

Deposit Guarantee Fund		
Opening Balance under IAS 39	**$**	**349,369**
Reclassification of Bond Pool to FVTPL		(945)
Restated Balance as at January 1, 2018	**$**	**348,424**

Accumulated Other Comprehensive Income (Loss)		
Opening Balance under IAS 39	**$**	**(4,727)**
Reclassification of Bond Pool to FVTPL		945
Restated Balance as at January 1, 2018	**$**	**(3,782)**

IFRS 15 Revenue from Contracts 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 standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The Corporation has assessed the effects of applying the new standard on financial statements and there is no impact to the Corporation.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 quarterly.

Investment Income

Interest and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to principal outstanding at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when it is known that a dividend has been declared.

Employee Benefits

Defined Contribution Plan

The Corporation has a defined contribution plan and pays fixed contributions to a service provider with no legal or constructive obligation to pay further amounts. The contributions to the registered retirement saving plans are recognized as an employee benefit expense on the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Short-term Employee Benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

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 assets and liabilities are based on taxable income for the year. Taxable income differs from net income as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of temporary taxable differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")
Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on investments classified as FVOCI.

Amounts recognized in other comprehensive income will eventually be transferred to the Statement of Comprehensive Income and reflected in net income as gains or losses once FVOCI investments are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. The Statement of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statement of Financial Position.

Future Changes in Accounting Policies
A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these financial statements.

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.

IFRIC 23 – Uncertainty over Income Tax Treatments
The IASB has published IFRIC 23 "Uncertainty over Income Tax Treatments' developed by IFRS Interpretations Committee to clarify the accounting for uncertainties in income taxes. This interpretation is to be applied to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation is evaluating the impact of the standard on its financial statements.

4. Cash and Cash Equivalents

Cash and cash equivalents are on deposit in the bank account and Consolidated Cash Investment Trust Fund ("CCITF") of the Province which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2018 securities held in CCITF have a rate of return of 1.7% per annum (2017: 0.9%).

5. Investments

The fair value of the Corporation's investments is summarized below:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Investment securities measured at:				
FVOCI - segregated portfolio	$ 296,366	$ 299,815	$ 284,066	$ 288,946
FVTPL - bond pool	60,134	61,656	53,355	54,574
FVOCI (designated) - equity instruments	115	115	115	115
Total	**$ 356,615**	**$ 361,586**	**$ 337,536**	**$ 343,635**

The fair value of the segregated portfolio is summarized below:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Directly held				
Securities issued or guaranteed by:				
Canada	$ 79,032	$ 80,657	$ 93,516	$ 96,909
Provinces	81,689	82,591	80,255	80,991
Financial institutions	106,397	107,064	71,118	71,538
Asset backed securities	29,248	29,503	39,177	39,508
Total	**$ 296,366**	**$ 299,815**	**$ 284,066**	**$ 288,946**

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.

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities measured at:								
FVOCI - segregated portfolio	$ 70,934	$ 225,432	$ 115	$ 296,481	$ 92,903	$ 191,163	$ 115	$ 284,181
FVTPL - bond pool	-	60,134	-	60,134	-	53,355	-	53,355
Total	**$ 70,934**	**$ 285,566**	**$ 115**	**$ 356,615**	**$ 92,903**	**$ 244,518**	**$ 115**	**$ 337,536**

There were no transfers (2017: Nil) between Level 1 and 2 nor were there changes to the Level 3 assets in the period.

VALUATION TECHNIQUE AND INPUTS

Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The valuation technique and key inputs used for Level 2 securities for fixed income securities and the Bond Pool are based on a vendor hierarchy:

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.
- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

FAIR VALUE CLASSIFICATION OF BOND POOL

The Corporation owns units in the Bond Pool and is considered to have exposure to the risks and benefits of those units in the pool and not the underlying investments. The classification of the Bond Pool is therefore determined based on the level that represents the most significant portion of the underlying investments in the entire pool. As a result, the value of the Bond Pool is categorized as Level 2.

FAIR VALUE MEASUREMENT OF SHARES

The Corporation has designated the shares with Credit Union Central Alberta Limited ($100) and Concentra Bank ($15) as FVOCI. The Corporation chose this presentation alternative because of legislated requirements. They have no specific maturity, are not quoted nor traded in an active market, the shares are issued and redeemed at par value, and there is no observable market data with which to reliably measure a fair value. There are no identifiable observable inputs and thus no inputs from which to determine the relationship to or sensitivity of fair market value to changes in unobservable inputs. During the year, there were no changes to the valuation of the shares (i.e. profit, loss, purchase, sales or transfers).

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 to allocate income to participants and to value purchases and sales of pool units. The Corporation's units in the Bond Pool represents approximately 0.6% (2017: 0.5%) of the Bond Pool's outstanding units.

As at December 31, 2018, securities directly held (excluding the Bond Pool) have an average effective market yield of 2.6% per annum (2017: 2.2%) based on fair value. As at December 31, 2018, securities held by the Bond Pool have an average effective market yield of 3.7% per annum (2017: 3.0%).

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, 2018, the average return over a rolling four year period over the policy benchmark is 36 bps (2017: 32 bps).

The Corporation's investments are exposed to financial risks including credit risk, interest rate and liquidity risk. The Corporation has risk management processes to monitor and address risks.

i) Credit Risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to discharge its contractual obligation. The Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. For the segregated portfolio, the Corporation only invests in issuers of debt instruments with a credit rating of A 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 following table shows the credit risk exposure of the segregated portfolio at the end of the reporting period.

Credit Rating	2018 Fair Value	2018 Book Value	2018 % of Total	2017 Fair Value	2017 Book Value	2017 % of Total
AAA	$ 108,282	$ 110,161	36.5%	$ 132,693	$ 136,417	46.7%
AA	112,449	112,987	37.9%	60,211	60,539	21.2%
AAL	40,953	41,109	13.8%	51,220	51,147	18.0%
AH	31,177	32,041	10.5%	36,436	37,326	12.8%
AL	3,505	3,517	1.3%	3,506	3,517	1.3%
Total	**$ 296,366**	**$ 299,815**	**100.0%**	**$ 284,066**	**$ 288,946**	**100.0%**

Note: Excludes Credit Union Central Alberta Limited ($100) and Concentra Bank ($15) shares as there is no credit risk associated with these equities.

The credit risk within the Bond Pool is managed by AIMCo in accordance with their statement of investment policies and guidelines. The units held are considered investment grade securities as the majority of the investments in the Bond Pool are of investment grade quality.

The ECL for the segregated portfolio is $32 (2017: nil). The segregated portfolio consists of investment grade securities. For investment grade securities, ratings on such investments do not significantly change over a short period. As such the expected credit loss are recognized only in respect of default events that are possible within the next 12 months. The following table shows the breakdown of ECL per credit rating.

Credit Rating	2018 12-month ECL value
AAA	$ -
AA	18
A	14
Total	**$ 32**

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 $17,899 (2017: $16,639) in the fair value of total investment if all other variables are constant.

iii) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's funding requirements in delivering its mandate of regulating the credit unions and guaranteeing the deposits at the credit unions. The Corporation's principal sources of funds are cash generated from credit union deposit guarantee assessments and interest earned on its investments. The assessment revenue and investment income support the normal operations of the Corporation. The Fund is invested conservatively and a draw from the Fund is only done when needed. The term structure for the segregated portfolio is presented in the table below:

	Securities	
	2018	2017
Under 1 year to 5 years	55%	60%
Over 5 years	45%	40%

The investment in units of the Bond Pool can be liquidated on a timely basis.

7. Provision for Financial Assistance

The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 3: Provision for Financial Assistance. The provision is based on expected loss calculation and is subject to uncertainty surrounding amount. The expected timing of outflows of economic benefit is dependent on future events. As such, actual losses may differ significantly from estimate.

There were no indemnification agreements outstanding with credit unions in 2018.

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 2018 is 1% (2017: 1%). After a period of 20 years since an unclaimed balance was transferred to the Corporation without any valid claim having been made, the balance will be transferred to the Province's General Revenue Fund. After that transfer, the person(s) entitled to that money can no longer make a claim.

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 2018 is 0.09% of credit unions' deposits and borrowings (2017: 0.09%). Assessments received by the Corporation from the largest credit union represent 61% of the total assessments received.

Investment Income

The investment portfolio is being actively managed by AIMCo. Investment income is as follows:

	2018	2017
Investment and dividend income	$ 8,888	$ 9,598
Net loss on sale of investments	(2,693)	(102)
Fair value adjustments on FVTPL	(302)	-
Impairment loss	(32)	-
Total investment income	**$ 5,861**	**$ 9,496**

10. Administration Expenses

	2018	2017
Salaries and benefits	$ 5,316	$ 5,586
Lease payments	460	484
Professional fees	343	340
Office	191	206
Board and committee fees	190	161
Other	184	179
Staff travel	122	132
Depreciation and amortization	116	103
Board and committee expenses	70	56
Total administration expenses	**$ 6,992**	**$ 7,247**

11. Income Tax (Recovery) Expense

The Corporation's statutory income tax rate is 22% (2017: 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:

	2018	2017
Expected income taxes on pre-tax net income at the statutory rate	$ 4,075	$ 4,813
Add (deduct) tax effect of:		
Non-taxable assessments	(4,324)	(4,307)
Other	11	26
Total income tax (recovery) expense	**$ (238)**	**$ 532**

At December 31, 2018, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $30 (2017: $38). The resulting deferred tax asset is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 21%.

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% (2017: 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% (2017: 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 $357 (2017: $406) represents contributions paid to these plans by the Corporation. As at December 31, 2018, no contributions (2017: nil) were outstanding.

The Corporation does not have any defined benefit plans nor are there any post-retirement benefits.

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 $273 (2017: $270).

The Corporation is governed by the *Credit Union Act*, and the Province appoints the Board of Directors. The Board Chair of the Corporation reports directly to the President of Treasury Board, Minister of Finance. The Corporation applied the exemption set out in IAS 24 – *Related Party Disclosures* regarding the disclosure of transactions with a related government and its related entities. The transactions carried out with the Province and its related entities are investment activities involving bonds issued by the Province and are carried out under normal market conditions. These bonds totaling $11,900 are included under Note 6 "Securities issued or guaranteed by Provinces".

The Board of Directors, executives and their immediate family members are also deemed to be related parties. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board of Directors and its executives. The Board of Directors and executives' remuneration are disclosed in the table below. As at December 31, 2018, the balance of compensation payable was $27 (2017: $24).

	2018				2017
	Salary [1]	Other Compensation [2]	Other Non-Cash Benefits [3]	Total	Total
Chair [4,5]	$ 39	$ -	$ -	$ 39	$ 35
Board of Directors [4,5]	147	-	-	147	129
Executives:					
President & CEO	309	59	8	376	376
Executive Vice President, Regulation & Risk Assessment	227	48	8	283	283
Vice President, Finance & Enterprise Risk [6]	38	269	5	312	260
Vice President, Business Services & Regulatory Practices	190	47	8	245	245
Assistant Vice President, Finance	119	11	9	139	139
Assistant Vice President, Governance & Human Resources	140	14	9	163	163
Total remuneration	**$ 1,209**	**$ 448**	**$ 47**	**$ 1,704**	**$ 1,630**

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 $107 (2017: $127). 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 of Directors are paid on a per diem basis for preparation and meeting time.
5. The minimum and maximum amounts paid to directors were $15 (2017: $14) and $39 (2017: $31), respectively. The average amount paid to directors was $21 (2017: $20).
6. Other compensation includes a separation allowance of $260.

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 five years	811
Later than five years	-
	$ 1,296

15. Capital Management

The Corporation's capital is comprised of ex ante funding. The Corporation is not subject to externally imposed regulatory capital requirements. The Corporation manages equity through the following: quarterly reporting to the Board of Directors through its committees on financial results; setting budgets and reporting variances to those budgets; establishing the Corporate Investment Policy; monitoring, reporting, and reviewing the adequacy of the Fund, and reviewing the assessment rates for credit unions.

The Corporation has determined that it is prudent to maintain an amount in advance or ex ante funding to absorb losses. The amount of such funding consists of the Fund and AOCI. Since we reached the fund size target of 1.50%, the Fund size is maintained within an operating range of 1.40% to 1.60% of total deposits and borrowings plus adjustments for any credit union deficiency from the minimum supervisory capital requirement. The Fund size as of December 31, 2018 is 1.63%.

16. Comparative Figures

Certain 2017 figures have been reclassified, where necessary, to conform to 2018 presentation.

Other Financial Information

Table of Contents

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Supplementary Information Required by Legislation or by Direction of the President of Treasury Board and Minister of Finance

Table of Contents

Public Interest Disclosure (Whistleblower Protection) Act (unaudited)

For the year ended March 31, 2019

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.

Here is a summary of the activity in my office pertaining to your department from the period April 1, 2018 to March 31, 2019:

1 – Disclosure

- 1 disclosure acted on
- 0 disclosures not acted on

1 - Investigation

0 - Investigations resulting in a finding of wrongdoing

Statement of Remissions, Compromises and Write-offs (Unaudited)

For the Year ended March 31, 2019

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	$ 38,394,121
Fuel Tax	309,257
Tobacco Tax	306,667
Tourism Tax	149,830
Sub-total	39,159,875
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	332,447
ATB Financial	
Loans and accounts receivable	119,862
Total write-offs	$ 39,612,184

Statement of Borrowings Made Under Section 56 of the *Financial Administration Act* (Unaudited)

For the Year ended March 31, 2019

The following has been prepared pursuant to section 56(2) of the *Financial Administration Act.*

	Issue Principal	**Proceeds**
Payable in Canadian dollars:		
Promissory Notes	$ 43,384,172,231	$ 43,157,094,761
Debentures	19,885,539,055	19,784,345,510
	$ 63,269,711,286	$ 62,941,440,271

Statement of the Amount of Debt of the Crown for which Securities Were Pledged (Unaudited)

For the year ended March 31, 2019

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 2018-19 fiscal year for which securities were pledged under Part 6 of the *Financial Administration Act* was $ nil.

Statement of Guarantees and Indemnities (Unaudited)

For the Year ended March 31, 2019

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, 2019, 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	$ 332,447	$ -

Lapse/Encumbrance (Unaudited)

Department of Treasury Board and Finance
For the Year ended March 31, 2019

($ thousands)

	Voted Estimate (1)	Supplementary Supply (2)	Adjustments	Adjusted Voted Estimate	Voted Actuals (4)	Unexpended (Over Expended)
Operating Expense						
1. Ministry Support Services						
1.1 Minister's Office	$ 1,017	$ -	$ -	$ 1,017	$ 1,120	$ (103)
1.2 Deputy Minister's Office	801	-	-	801	739	62
1.3 Strategic and Business Services [3]	7,687	-	-	7,687	7,699	(12)
	9,505	-	-	9,505	9,558	(53)
2. Budget Development and Reporting	5,143	-	-	5,143	5,581	(438)
3. Fiscal Planning and Economic Analysis [3]	6,183	-	-	6,183	6,307	(124)
4. Investment, Treasury and Risk Management						
4.1 Treasury Management	10,979	-	-	10,979	11,263	(284)
4.2 Risk Management and Insurance	1,753	-	-	1,753	1,823	(70)
	12,732	-	-	12,732	13,086	(354)
5. Office of the Controller	2,880	-	-	2,880	2,669	211
6. Corporate Internal Audit Services	3,482	-	-	3,482	3,106	376
7. Tax and Revenue Management						
7.1 Tax and Revenue Administration	24,460	(367)	-	24,093	22,187	1,906
7.2 Border Community Competiveness Program	5,000	(300)	-	4,700	4,724	(24)
	29,460	(667)	-	28,793	26,911	1,882
8. Financial Sector and Pensions						
8.1 Financial Sector Regulation and Policy	6,130	-	-	6,130	5,604	526
8.2 Automobile Insurance Rate Board	1,477	-	-	1,477	1,378	99
	7,607	-	-	7,607	6,982	625
9. Provincial Bargaining Coordination Office	2,381	-	-	2,381	2,355	26
10. Public Service Commission [3]						
10.1 Office of the Public Service Commissioner	649	-	-	649	646	3
10.2 Public Service Commission Programs	86,914	(68)	-	86,846	71,233	15,613
	87,563	(68)	-	87,495	71,879	15,616
11. Communications and Public Engagement	40,527	30,000	-	70,527	66,095	4,432
12. Gaming						
12.1 Gaming Research	1,600	-	-	1,600	1,505	95
12.2 Horse Racing and Breeding Renewal Program	36,000	(4,000)	-	32,000	35,012	(3,012)
12.3 Bingo Associations	6,200	300	-	6,500	7,171	(671)
	43,800	(3,700)	-	40,100	43,688	(3,588)
Debt Servicing						
13 School Construction Debenture Debt Servicing	444	-	-	444	444	-
Total	251,707	25,565	-	277,272	258,661	18,611
Lapse/(Encumbrance)						18,611

Lapse/Encumbrance (Unaudited)

Department of Treasury Board and Finance
For the Year ended March 31, 2019

($ thousands)

	Voted Estimate (1)	Supplementary Supply (2)	Adjustments	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Capital Plan Spending (3)						
1.3 Strategic and Business Services	$ -	$ -	$ -	$ -		$ -
Total	-	-	-	-	-	-
Lapse/(Encumbrance)						-
Financial Transactions Vote by Program						
14 Grants for school construction debenture principal repayment	3,617	-	-	$ 3,617	3,617	-
Total	$ 3,617	$ -	$ -	$ 3,617	$ 3,617	$ -
Lapse/(Encumbrance)						$ -

(1) As per "Expense Vote by Program", "Capital Investment Vote by Program" and "Financial Transactions Vote by Program" on pages 270-271 of the 2018-19 Government Estimates.

(2) Per the Special Warrant (No. 001/2019) for Supplementary Supply approved on March 29, 2019 (Order in Council No. 084/2019). This disclosure is made pursuant to section 30 of the Financial Administration Act.

(3) Per Order in Council No. 297/2018, the Voted Estimate has been restated to reflect the transfers of FOIP/ IMT and EIE services to Service Alberta and Human Resource Services to Public Service Commission. Per Order in Council 028/2019, the Voted Estimate has been restated to reflect the transfer of Economic Forecasting and Analysis group from Ministry of Energy to Treasury Board and Finance.

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

LONG TERM DISABILITY INCOME CONTINUANCE PLAN - BARGAINING UNIT

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Long Term Disability Income Continuance Plan – Bargaining Unit (the Plan) which comprise the statement of financial position as at March 31, 2019, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2019, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

Other information

The financial statements of the Long Term Disability Income Continuance Plan – Bargaining Unit are included in the Annual Report of the Ministry of Treasury Board and Finance that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the Annual Report of the Ministry of Treasury Board and Finance, but does not include the financial statements and my auditor's report thereon. The Annual Report of the Ministry of Treasury Board and Finance is expected to be made available to me after the date of this auditor's report.

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

May 29, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands)	
	2019	**2018**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 283,201	$ 279,584
Contributions receivable		
Employer	258	255
Employee	257	255
Accounts receivable	685	176
Total Assets	284,401	280,270
Liabilities		
Accounts payable and accrued liabilities	1,981	1,421
Total Liabilities	1,981	1,421
Net assets available for benefits	282,420	278,849
Benefit obligation and surplus		
Benefit obligation (Note 5)	172,100	166,866
Surplus (Note 6)	110,320	111,983
Benefit obligation and surplus	**$ 282,420**	**$ 278,849**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2019

	($ thousands)	
	2019	**2018**
Increase in assets		
Contributions:		
Employers	$ 13,351	$ 14,112
Employees	13,355	14,109
Investment income (Note 7)	18,634	16,494
	45,340	44,715
Decrease in assets		
Benefit payments	35,366	34,684
Adjudication	3,567	3,429
Severance	558	1,268
Rehabilitation	590	759
Investment expenses (Note 8)	1,152	1,157
Administrative expenses (Note 9)	536	475
Bad debt	-	9
	41,769	41,781
Increase in net assets	3,571	2,934
Net assets available for benefits at beginning of year	278,849	275,915
Net assets available for benefits at end of year	**$ 282,420**	**$ 278,849**

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

Statement of Changes in Benefit Obligation

Year ended March 31, 2019

	($ thousands)	
	2019	**2018**
Increase in benefit obligation		
New claims	$ 32,756	$ 30,368
Interest accrued on benefits	5,823	6,126
Other net experience loss	373	-
	38,952	36,494
Decrease in benefit obligation		
Benefit payments	35,366	34,684
Terminations other than expected	(1,824)	(508)
Change in CPP offset assumption	176	2,546
Change in claims termination rates assumption	-	3,542
Other net experience gain	-	3,764
	33,718	44,028
Increase (decrease) in benefit obligation	5,234	(7,534)
Benefit obligation at beginning of year	166,866	174,400
Benefit obligation at end of year	$ 172,100	$ 166,866

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

Notes to the Financial Statements

Year ended March 31, 2019
(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, 2019 are 1.00% (2018: 1.00%) of insurable salary for employers and 1.00% (2018: 1.00%) 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 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 $265 (2018: $266).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

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

Contracts to buy and sell financial instruments in the pools are between 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.

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

   i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools; and

   ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, real estate and 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]		2019	2018
	Level 2	Level 3	Fair Value	Fair Value
Money market and fixed income				
Deposits and short-term securities	$ 4,282	$ -	$ 4,282	$ 4,972
Bonds, mortgages and private debt	120,837	11,660	132,497	132,935
	125,119	11,660	136,779	137,907
Equities				
Canadian	28,393	-	28,393	28,211
Foreign	66,415	4,288	70,703	71,103
Private	-	5,475	5,475	5,713
	94,808	9,763	104,571	105,027
Inflation sensitive and alternatives				
Real estate	-	24,502	24,502	22,183
Infrastructure	-	9,492	9,492	7,258
Timberland	-	5,738	5,738	5,040
	-	39,732	39,732	34,481
Strategic, tactical and currency investments *	149	1,970	2,119	2,169
Total investments	$ 220,076	$ 63,125	$ 283,201	$ 279,584

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $220,076 (2018: $225,379).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $63,125 (2018: $54,205).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2019	2018
Balance, beginning of year	$ 54,205	$ 54,041
Investment income *	5,557	4,053
Purchases of Level 3 pooled fund units	11,161	5,651
Sale of Level 3 pooled fund units	(7,798)	(9,540)
Balance, end of year	**$ 63,125**	**$ 54,205**

* Investment income includes unrealized gains (losses) of $2,409 (2018: ($1,111))

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

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

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of 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 2019		2018	
		($ thousands)	%	($ thousands)	%
Money market and fixed income	35 - 55%	$ 136,779	48.3	$ 137,907	49.3
Equities	20 - 58%	104,571	36.9	105,027	37.6
Inflation sensitive and alternatives	7 - 20%	39,732	14.0	34,481	12.3
Strategic, tactical and currency	(a)	2,119	0.8	2,169	0.8
		$ 283,201	100.0	$ 279,584	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. Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Plan's investment in debt securities by credit rating at March 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	89.4%	93.6%
Speculative Grade (BB+ or lower)	0.5%	0.6%
Unrated	10.1%	5.8%
	100.0%	100.0%

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, 2019, the Plan's share of securities loaned under this program is $15,329 (2018: $20,863) and collateral held totals $16,249 (2018: $22,345). 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% (2018: 24%) of the Plan's investments, or $64,169 (2018: $68,264), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 11% (2018: 12%) and the Euro, 2% (2018: 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% (2018: 2.4%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2019:

($ thousands)

	2019		2018	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 32,226	$ (3,223)	$ 34,834	$ (3,483)
Euro	5,803	(580)	7,488	(749)
Japanese yen	5,295	(530)	5,202	(520)
British pound	3,639	(364)	3,745	(374)
Hong Kong dollar	3,012	(301)	2,504	(251)
Other foreign currency	14,194	(1,419)	14,491	(1,449)
Total foreign currency investments	$ 64,169	$ (6,417)	$ 68,264	$ (6,826)

(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 3.5% (2018: 3.4%) 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 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% (2018: 4.6%) 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 pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2019	2018
Contracts in net favourable position (current credit exposure)	63	$ 9,304	$ 2,417
Contracts in net unfavourable position	18	(8,457)	(2,859)
Net fair value of derivative contracts	81	$ 847	$ (442)

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 $9,304 (2018: $2,417) 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	2019	2018
Structured equity replication derivatives	$ 944	$ (683)
Foreign currency derivatives	(225)	(902)
Interest rate derivatives	109	1,058
Credit risk derivatives	19	85
Net fair value of derivative contracts	$ 847	$ (442)

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. 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 include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

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

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

v. At March 31, 2019, deposits in futures contracts margin accounts totaled $721 (2018: $775). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $1,226 (2018: $817) and $3 (2018: $nil).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2018 by the Plan's actuary, Eckler Ltd. and was then extrapolated to March 31, 2019.

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:

	%	
	2019 Extrapolation	**2018 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% (2018: 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% (2018: 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, 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) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2019, based on the extrapolation performed from the December 31, 2018 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 $4.4 million (2018: $4.2 million).

NOTE 6 SURPLUS

	($ thousands)	
	2019	2018
Surplus at beginning of year	$ 111,983	$ 101,515
Increase in net assets available for benefits	3,571	2,934
Net (increase) decrease in benefit obligation	(5,234)	7,534
Surplus at end of year	$ 110,320	$ 111,983

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	2019 Total	2018 Total
Money market and fixed income	$ 4,390	$ 3,650	$ 8,040	$ 2,580
Equities				
Canadian	1,657	316	1,973	975
Foreign	3,994	(459)	3,535	8,983
Private	893	180	1,073	139
	6,544	37	6,581	10,097
Inflation sensitive and alternatives				
Real estate	921	1,579	2,500	1,855
Infrastructure	432	325	757	880
Timberland	280	396	676	643
	1,633	2,300	3,933	3,378
Strategic, tactical and currency investments	88	(8)	80	439
	$ 12,655	$ 5,979	$ 18,634	$ 16,494

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 $169 and $5,824 respectively (2018: $1,829 and ($3,940) respectively). Realized and unrealized gains and losses on currency hedges total ($66) and $52 respectively (2018: $113 and ($198) 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) 2019	2018
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 942	$ 933
Performance based fees [(a)]	198	212
	1,140	1,145
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 1,152	$ 1,157
Decrease in expenses	(0.4%)	(4.4%)
Increase in average investments under management	1.2%	4.4%
Increase in value of investments attributed to AIMCo	0.4%	1.0%
Investment expense as a percent of dollar invested	0.4%	0.4%

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

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands) 2019	2018
General administration costs		
Salaries and related expenses	$ 265	$ 266
Fund Administration - Union liaison and others	77	74
Actuarial fees	104	84
Supplies and services	90	51
	$ 536	$ 475

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.

	2019	2018	2017	2016	2015
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.1	4.7	8.1	(0.2)	12.9
Value added return by investment manager	0.4	1.0	1.8	2.1	(1.0)
Time weighted rate of return, at fair value [(a)]	**6.5**	**5.7**	**9.9**	**1.9**	**11.9**
Other sources [(b)]	(5.2)	(4.6)	(1.8)	(2.4)	(0.3)
Per cent change in net assets [(c)]	**1.3**	**1.1**	**8.1**	**(0.5)**	**11.6**
Per cent change in benefit obligation [(c)]	**3.1**	**(4.3)**	**1.3**	**1.6**	**9.7**
Per cent of benefit obligation supported by net assets	**164**	**167**	**158**	**148**	**151**

(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 7.1% (PBR: 6.3%), ten years is 9.9% (PBR: 8.8%) 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 $110,320 (2018: surplus of $111,983) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is not named in any legal matters where damages are being sought, this year or in the prior year.

NOTE 13 COMPARATIVE FIGURES

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

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 29, 2019.

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LONG TERM DISABILITY INCOME CONTINUANCE PLAN - MANAGEMENT, OPTED OUT and EXCLUDED

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion
I have audited the financial statements of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded (the Plan) which comprise the statement of financial position as at March 31, 2019, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2019, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Other information
The financial statements of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded are included in the Annual Report of the Ministry of Treasury Board and Finance that is prepared by the Ministry of Treasury Board and Finance. The other information comprises the information included in the Annual Report of the Ministry of Treasury Board and Finance, but does not include the financial statements and my auditor's report thereon. The Annual Report of the Ministry of Treasury Board and Finance is expected to be made available to me after the date of this auditor's report.

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.
If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact to those charged with governance.

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

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

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

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

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

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

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

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

May 29, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	($ thousands)	
	2019	**2018**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 65,450	$ 69,537
Employer contributions receivable	66	68
Accounts receivable	111	-
Total Assets	65,627	69,605
Liabilities		
Accounts payable and accrued liabilities	522	407
Total Liabilities	522	407
Net assets available for benefits	65,105	69,198
Benefit obligation and surplus		
Benefit obligation (Note 5)	40,463	39,393
Surplus (Note 6)	24,642	29,805
Benefit obligation and surplus	**$ 65,105**	**$ 69,198**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2019

	($ thousands) 2019	2018
Increase in assets		
Employer contributions	$ 2,484	$ 3,018
Investment income (Note 7)	4,443	4,244
	6,927	7,262
Decrease in assets		
Benefit payments	9,705	9,285
Adjudication	568	467
Rehabilitation	102	65
Severance	187	91
Investment expenses (Note 8)	306	338
Administrative expenses (Note 9)	152	207
	11,020	10,453
Decrease in net assets	(4,093)	(3,191)
Net assets available for benefits at beginning of year	69,198	72,389
Net assets available for benefits at end of year	**$ 65,105**	**$ 69,198**

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

Statement of Changes in Benefit Obligation

Year ended March 31, 2019

	($ thousands) 2019	2018
Increase in benefit obligation		
New claims	$ 10,360	$ 9,465
Interest accrued on benefits	1,486	1,569
	11,846	11,034
Decrease in benefit obligation		
Benefit payments	9,705	9,285
Terminations other than expected	285	1,252
Change in CPP offset assumption	26	355
Change in claims termination rates assumption	-	865
Other net experience gains	760	834
	10,776	12,591
Increase (decrease) in benefit obligation	1,070	(1,557)
Benefit obligation at beginning of year	39,393	40,950
Benefit obligation at end of year	$ 40,463	$ 39,393

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

Notes to the Financial Statements

Year ended March 31, 2019
(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, 2019 is 0.30% (2018: 0.30%) of insurable salary of eligible employees with the exception of Provincial Judges with the rate of 0.55% (2018: 0.55%). 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 (2018: $112).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

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

Contracts to buy and sell financial instruments in the pools are between 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.

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

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.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred but Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts payable and accrued liabilities are estimated to approximate their book values.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, real estate and 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]		2019	2018
	Level 2	Level 3	Fair Value	Fair Value
Money market and fixed income				
Deposits and short-term securities	$ 2,586	$ -	$ 2,586	$ 2,124
Bonds, mortgages and private debt	25,937	3,003	28,940	31,850
	28,523	3,003	31,526	33,974
Equities				
Canadian	6,424	-	6,424	6,940
Foreign	13,248	1,124	14,372	16,548
Private	-	1,445	1,445	1,601
	19,672	2,569	22,241	25,089
Inflation sensitive and alternatives				
Real estate	-	6,982	6,982	6,321
Infrastructure	-	2,571	2,571	2,172
Timberland	-	1,488	1,488	1,313
	-	11,041	11,041	9,806
Strategic, tactical and currency investments *	46	596	642	668
Total investments	$ 48,241	$ 17,209	$ 65,450	$ 69,537

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $48,241 (2018: $54,106).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $17,209 (2018: $15,431).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2019	2018
Balance, beginning of year	$ 15,431	$ 16,021
Investment income *	1,435	1,189
Purchases of Level 3 pooled fund units	2,596	1,179
Sale of Level 3 pooled fund units	(2,253)	(2,958)
Balance, end of year	**$ 17,209**	**$ 15,431**

* Investment income includes unrealized gains (losses) of $661 (2018: ($135))

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

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

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of 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 2019 ($ thousands)	2019 %	2018 ($ thousands)	2018 %
Money market and fixed income	35 - 55%	$ 31,526	48.1	$ 33,974	48.8
Equities	20 - 58%	22,241	34.0	25,089	36.1
Inflation sensitive and alternatives	7 - 20%	11,041	16.9	9,806	14.1
Strategic, tactical and currency	(a)	642	1.0	668	1.0
		$ 65,450	100.0	$ 69,537	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. Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Plan’s investment in debt securities by credit rating at March 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	88.3%	92.6%
Speculative Grade (BB+ or lower)	0.5%	0.6%
Unrated	11.2%	6.8%
	100.0%	100.0%

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, 2019, the Plan's share of securities loaned under this program is $3,246 (2018: $4,952) and collateral held totals $3,441 (2018: $5,304). 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 21% (2018: 23%) of the Plan's investments, or $13,604 (2018: $16,143), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 11% (2018: 12%) and the Euro, 2% (2018: 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 2.1% (2018: 2.3%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2019:

($ thousands)

	2019		2018	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 6,881	$ (688)	$ 8,208	$ (821)
Euro	1,179	(118)	1,760	(176)
Japanese yen	1,086	(108)	1,222	(122)
British pound	749	(75)	880	(88)
Other foreign currency	3,709	(371)	4,073	(407)
Total foreign currency investments	$ 13,604	$ (1,360)	$ 16,143	$ (1,614)

(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% (2018: 3.3%) 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 4.4% (2018: 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 pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2019	2018
Contracts in net favourable position (current credit exposure)	63	$ 1,940	$ 560
Contracts in net unfavourable position	18	(1,764)	(694)
Net fair value of derivative contracts	81	$ 176	$ (134)

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 $1,940 (2018: $560) 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	2019	2018
Structured equity replication derivatives	$ 209	$ (163)
Foreign currency derivatives	(61)	(241)
Interest rate derivatives	24	250
Credit risk derivatives	4	20
Net fair value of derivative contracts	$ 176	$ (134)

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. 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 include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

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

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

v. At March 31, 2019, deposits in futures contracts margin accounts totaled $161 (2018: $189). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $259 (2018: $192) and $1 (2018: $nil).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2018 by the Plan's actuary, Eckler Ltd. and was then extrapolated to March 31, 2019.

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:

	%	
	2019 Extrapolation	**2018 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% (2018: 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% (2018: 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, 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.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2019, based on the extrapolation performed from the December 31, 2018 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 (2018: $0.8 million).

NOTE 6 SURPLUS

($ thousands)

	2019	2018
Surplus at beginning of year	$ 29,805	$ 31,439
Decrease in net assets available for benefits	(4,093)	(3,191)
Net (increase) decrease in benefit obligation	(1,070)	1,557
Surplus at end of year	$ 24,642	$ 29,805

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	2019 Total	2018 Total
Money market and fixed income	$ 1,041	$ 783	$ 1,824	$ 630
Equities				
Canadian	403	76	479	245
Foreign	882	(81)	801	2,170
Private	181	7	188	97
	1,466	2	1,468	2,512
Inflation sensitive and alternatives				
Real estate	263	449	712	530
Infrastructure	127	106	233	264
Timberland	75	102	177	177
	465	657	1,122	971
Strategic, tactical and currency investments	26	3	29	131
	$ 2,998	$ 1,445	$ 4,443	$ 4,244

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 $45 and $1,400 respectively (2018: $452 and ($865) respectively). Realized and unrealized gains and losses on currency hedges total ($6) and $6 respectively (2018: $35 and ($61) 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) 2019	2018
Amount charged by AIMCo for:		
Investment costs [a]	$ 230	$ 245
Performance based fees [a]	64	81
	294	326
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 306	$ 338
Decrease in expenses	(9.5%)	(0.9%)
Decrease in average investments under management	(5.0%)	(1.1%)
Increase in value of investments attributed to AIMCo	0.3%	1.0%
Investment expense as a percent of 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) 2019	2018
General administration costs		
Salaries and related expenses	$ 112	$ 112
Actuarial fees	32	63
Supplies and services	8	32
	$ 152	$ 207

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.

	2019	2018	2017	2016	2015
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.2	4.7	8.0	(0.1)	12.9
Value added return by investment manager	0.3	1.0	1.6	1.7	(1.4)
Time weighted rate of return, at fair value [(a)]	**6.5**	**5.7**	**9.6**	**1.6**	**11.5**
Other sources [(b)]	(12.4)	(10.1)	(7.5)	(7.3)	(1.3)
Per cent change in net assets [(c)]	**(5.9)**	**(4.4)**	**2.1**	**(5.7)**	**10.2**
Per cent change in benefit obligation [(c)]	**2.7**	**(3.8)**	**(1.7)**	**(2.7)**	**(3.1)**
Per cent of benefit obligation supported by net assets	**161**	**176**	**177**	**170**	**176**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 6.9% (PBR: 6.3%), ten years is 9.5% (PBR: 8.6%) and since inception is 6.2% (PBR: 5.9%).

(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 $ 24,642 (2018: surplus of $29,805) 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 (2018: 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 (2018: $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 related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

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 29, 2019.

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MANAGEMENT EMPLOYEES PENSION PLAN

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2018, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

Other information

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

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

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

When I read the Annual Report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing the Management Employees Pension Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Management Employees Pension Plan's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

I am responsible for expressing an independent opinion on the financial statements of the Management Employees Pension Plan and reporting that opinion to you based on my audit.

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

April 23, 2019
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2018

	($ thousands)	
	2018	**2017**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,057,027	$ 5,033,661
Contributions receivable		
Employers	3,837	4,631
Employees	2,784	3,449
Receivable for investment sales	-	2,500
Accounts receivable	1,691	1,092
Total Assets	5,065,339	5,045,333
Liabilities		
Accounts payable	4,007	6,738
Total Liabilities	4,007	6,738
Net assets available for benefits	$ 5,061,332	$ 5,038,595
Pension obligation and surplus		
Pension obligation (Note 5)	$ 4,390,632	$4,172,589
Surplus (Note 6)	670,700	866,006
Pension obligation and surplus	$ 5,061,332	$ 5,038,595

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2018

	($ thousands) 2018	2017
Increase in Assets		
Contributions (Note 7)	$ 189,965	$ 191,008
Investment income (Note 8)	89,985	494,101
Transfers from other plans, net	10,896	3,998
	290,846	689,107
Decrease in Assets		
Benefit payments (Note 10)	232,444	231,456
Investment expenses (Note 11)	33,128	28,727
Administrative expenses (Note 12)	2,537	2,479
	268,109	262,662
Increase in net assets	22,737	426,445
Net assets available for benefits at beginning of year	5,038,595	4,612,150
Net assets available for benefits at end of year	$ 5,061,332	$ 5,038,595

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2018

	($ thousands) 2018	2017
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 257,772	$ 250,011
Benefits earned	126,571	138,984
Net increase (decrease) due to actuarial assumption changes (Note 5a)	154,675	(199,065)
	539,018	189,930
Decrease in pension obligation		
Benefits, transfers and interest	221,548	227,458
Net experience gains (Note 5b)	99,427	-
	320,975	227,458
Net increase (decrease) in pension obligation	218,043	(37,528)
Pension obligation at beginning of year	4,172,589	4,210,117
Pension obligation at end of year (Note 5)	$ 4,390,632	$ 4,172,589

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2018

(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 any actuarial deficiency (see Note 14) are funded by employees and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2018 were 12.80% (2017: 12.80%) of the capped salary for employees and 17.20% (2017: 17.20%) for employers. The capped salary is set to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*.

The contribution rates are reviewed and approved at least once every three years by the President of Treasury Board, 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 highest average salary over 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.

Vested members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of combined pensionable service.

Vested members are entitled to an unreduced pension on service after 1991 if they have either attained age 60, or age 55 and the sum of their age and years of combined pensionable service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY PENSIONS

Pensions may be payable to members who become totally disabled and retire early with at least five years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of combined pensionable service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability pensions.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive either a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where combined pensionable service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least five years of combined pensionable service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any service purchased by the member on an elective basis that was wholly funded by the member is not included in the commuted value and is instead refunded as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is refunded to the member.

Members who terminate with fewer than five years of combined pensionable service receive a refund of their contributions plus interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) PURCHASED SERVICE AND TRANSFERS

All elective service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. The 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) CHANGE IN ACCOUNTING POLICY

Effective January 1, 2018, the Plan adopted the accounting standard IFRS 9 – Financial Instruments on a prospective basis. There was no impact on the financial position or performance of the Plan.

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 measurement 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... continued

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]		2018	2017
Asset class	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income				
Deposits and short-term securities	$ 30,060	$ -	$ 30,060	$ 22,817
Bonds, mortgages and private debt	635,580	332,635	968,215	931,390
	665,640	332,635	998,275	954,207
Equities				
Canadian	625,929	-	625,929	689,630
Foreign	1,602,056	108,676	1,710,732	1,922,731
Private	5	205,781	205,786	207,928
	2,227,990	314,457	2,542,447	2,820,289
Inflation sensitive				
Real estate	-	682,800	682,800	385,546
Infrastructure	-	443,408	443,408	332,447
Timberland	-	12,032	12,032	2,050
Real return bonds	334,326	-	334,326	488,325
	334,326	1,138,240	1,472,566	1,208,368
Strategic, tactical and currency investments *	1,764	41,975	43,739	50,797
Total investments	$ 3,229,720	$ 1,827,307	$ 5,057,027	$ 5,033,661

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $3,229,720 (2017: $3,719,496).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $1,827,307 (2017: $1,314,165).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2018	**2017**
Balance, beginning of year	$ 1,314,165	$ 1,215,000
Investment income *	148,920	71,908
Purchases of Level 3 pooled fund units	525,399	218,072
Sale of Level 3 pooled fund units	(161,172)	(190,815)
Level 3 transfers out	(5)	-
Balance, end of year	$ 1,827,307	$ 1,314,165

* Investment income includes unrealized gains (losses) of $106,080 (2017: $(46,832)).

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

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

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real

NOTE 3 INVESTMENTS continued

estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.

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

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

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts 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 2018 ($ thousands)	2018 %	Actual Asset Mix 2017 ($ thousands)	2017 %
Money market and fixed income	10 - 30%	$ 998,275	19.7	$ 954,207	19.0
Equities	40 - 62%	2,542,447	50.3	2,820,289	56.0
Inflation sensitive	20 - 45%	1,472,566	29.1	1,208,368	24.0
Strategic, tactical and currency investments	(a)	43,739	0.9	50,797	1.0
		$ 5,057,027	100.0	$ 5,033,661	100.0

(a) In accordance with the IP, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

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

The following table summarizes the Plan's investment in debt securities by credit rating at December 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	75.1%	84.5%
Speculative Grade (BB+ or lower)	0.3%	0.3%
Unrated	24.6%	15.2%
	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.

NOTE 4 INVESTMENT RISK MANAGEMENT continued

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, 2018, the Plan's share of securities loaned under this program is $278,167 (2017: $552,316) and collateral held totals $296,511 (2017: $597,073). 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% (2017: 38%) of the Plan's investments, or $1,912,672 (2017: $1,890,777), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 19% (2017: 19%) and the Euro, 4% (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 to the Plan would be approximately 3.8% of total investments (2017: 3.8%).

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

	($ thousands)			
	2018		2017	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 985,615	$ (98,561)	$ 971,445	$ (97,145)
Euro	214,698	(21,470)	207,624	(20,762)
British pound	161,387	(16,139)	105,272	(10,527)
Japanese yen	128,972	(12,897)	145,466	(14,547)
Hong Kong dollar	74,780	(7,478)	66,758	(6,676)
Other foreign currency	347,220	(34,722)	394,212	(39,421)
Total foreign currency investments	$1,912,672	$(191,267)	$1,890,777	$(189,078)

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

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 1.9% of total investments (2017: 2.5%).

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 6.4% of total investments (2017: 6.6%).

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	2018	2017
Contracts in net favourable position (current credit exposure)	57	$ 145,270	$ 66,688
Contracts in net unfavourable position	20	(217,252)	(36,819)
Net fair value of derivative contracts	77	$ (71,982)	$ 29,869

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 $145,270 (2017: $66,688) 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	$ (39,050)	$ 13,036
Foreign currency derivatives	(32,787)	9,134
Interest rate derivatives	(630)	5,988
Credit risk derivatives	485	1,711
Net fair value of derivative contracts	$ (71,982)	$ 29,869

(i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity derivatives. Rights, warrants, futures and options are also included as structured equity replication derivatives.

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

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

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

(v) At December 31, 2018, deposits in futures contracts margin accounts totaled $17,672 (2017: $5,209). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $(61,695) (2017: $(12,134)) and $863 (2017: $564).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2017 by Aon Hewitt and was then extrapolated to December 31, 2018.

The actuarial assumptions used in determining the value of the pension obligation of $4,390,632 (2017: $4,172,589) reflect management's best estimate, as at the measurement date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is determined by taking the plan specific asset allocation and applying the average of the expected long term asset returns determined by independently developed investment models; less expected plan investment expenses; and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2018	2017
	%	
Discount rate	6.10	6.40
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 GAINS

Net experience gains of $99,427 (2017: $nil) reflect the results of the valuation as at December 31, 2017 extrapolated to December 31, 2018.

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, 2018:

	($ 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	308,200	1.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	37,400	0.7
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	589,700	4.6

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings is 21.9% at December 31, 2018.

NOTE 6 SURPLUS

	2018 ($ thousands)	2017 ($ thousands)
Surplus at beginning of year	$ 866,006	$ 402,033
Increase in net assets available for benefits	22,737	426,445
Net decrease (increase) in pension obligation	(218,043)	37,528
Surplus at end of year	$ 670,700	$ 866,006

NOTE 7 CONTRIBUTIONS

	2018 ($ thousands)	2017 ($ thousands)
Current service		
Employers	$ 106,945	$ 108,867
Employees	80,105	78,949
Past service		
Employers	685	595
Employees	2,230	2,597
	$ 189,965	$ 191,008

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	2018 Total	2017 Total
Money market and fixed income	$ 34,013	$ (5,653)	$ 28,360	$ 28,939
Equities				
Canadian	25,269	(88,437)	(63,168)	69,294
Foreign	126,300	(155,218)	(28,918)	323,439
Private	6,489	28,233	34,722	4,238
	158,058	(215,422)	(57,364)	396,971
Inflation sensitive				
Real estate	20,029	52,275	72,304	34,763
Infrastructure	15,822	28,843	44,665	21,609
Timberland	(377)	674	297	(82)
Real return bonds	39,420	(37,352)	2,068	7,771
	74,894	44,440	119,334	64,061
Strategic, tactical and currency investments	1,408	(1,753)	(345)	4,130
	$ 268,373	$ (178,388)	$ 89,985	$ 494,101

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 $(12,727) and $(164,114) respectively (2017: $93,039 and $(79,027) respectively). Realized and unrealized gains and losses on currency hedges total $(818) and $(729) respectively (2017: $391 and $(16) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis and income and expense on derivative contracts.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2018	2017	2016	2015	2014
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	0.6	9.2	5.8	8.4	12.0
Value added (lost) by AIMCo	0.5	0.9	0.7	2.4	(0.7)
Time weighted rate of return, at fair value [(a)]	**1.1**	**10.1**	**6.5**	**10.8**	**11.3**
Other sources [(b)]	(0.7)	(0.8)	0.2	0.5	0.8
Per cent change in net assets [(c)]	**0.4**	**9.3**	**6.7**	**11.3**	**12.1**
Per cent change in pension obligation [(c)]	**5.2**	**(0.9)**	**4.6**	**5.7**	**11.6**
Per cent of pension obligation supported by net assets	**115**	**121**	**110**	**107**	**102**

(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 7.9% (PBR: 7.1%), ten years is 9.4% (PBR: 8.7%) and twenty years is 6.9% (PBR: 6.4%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 5.5% (2017: 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)	
	2018	**2017**
Retirement benefits	$ 208,494	$ 196,936
Disability pensions	258	259
Termination benefits	19,331	24,879
Death benefits	4,361	9,381
	$ 232,444	$ 231,456

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2018	2017
Amounts charged by AIMCo for:		
Investment costs [a]	$ 25,259	$ 22,169
Performance based fees [a]	6,759	5,356
GST [b]	1,058	1,150
	33,076	28,675
Amounts charged by Treasury Board and Finance for :		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 33,128	$ 28,727
Increase in expenses [a]	15.3%	12.2%
Increase in average investments under management	4.7%	8.1%
Increase in value of investments attributed to AIMCo	0.5%	0.9%
Investment expenses as a percent of dollar invested	0.7%	0.6%
Investment expenses per member	$ 2,715	$ 2,414

(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 in investment costs and performance based fees is 16.3% (2017: 11.3%).

(b) GST includes $nil (2017: $244) 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) 2018	2017
General administration costs	$ 2,254	$ 2,186
Board costs	62	69
Actuarial fees	66	26
Other professional fees	155	198
	2,537	2,479
Member service expenses per member	$ 208	$ 208

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 $35,665 (2017: $31,206) or $2,923 (2017: $2,622) per member and 0.70% (2017: 0.62%) of net assets under administration

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $5,056,826 at December 31, 2018 (2017: $4,737,469).

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 totaling 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 contribution rates in effect at December 31, 2018 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2018. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

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 PLAN

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Plan (the Plans), which comprise the statement of financial position as at March 31, 2019, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Plan as at March 31, 2019, and the changes in the Plans' net assets available for benefits and changes in the Plans' pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

June 07, 2019
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2019

	Registered Plan Note 1a *($ thousands)*		Unregistered Plan Note 1a *($ thousands)*	
	2019	**2018**	**2019**	**2018**
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 2,976	$ 692
Investments (Note 4)	159,857	153,256	-	-
GST receivable	13	12	-	-
Other receivable	265	-	-	-
Income tax refundable	-	-	10,877	11,782
Due from Reserve Fund (Note 6)	-	-	212,761	196,679
Total assets	160,135	153,268	226,614	209,153
Liabilities				
Accounts payable	323	70	677	774
Total Liabilities	323	70	677	774
Net assets available for benefits	$ 159,812	$ 153,198	$ 225,937	$ 208,379
Pension obligation and (deficit)				
Pension Obligation (Note 7)	146,438	141,180	230,196	217,095
Surplus (Deficit) (Note 8)	13,374	12,018	(4,259)	(8,716)
Pension obligation and (deficit)	$ 159,812	$ 153,198	$ 225,937	$ 208,379

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2019

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2019	2018	2019	2018
Increase in assets				
Contributions (Note 9)	$ 4,686	$ 5,268	$ 2,486	$ 2,537
Investment income (Note 10)	11,371	9,947	25	24
Transfers from the Reserve Fund	-	-	15,092	4,740
Transfer to CRA from the Reserve Fund	-	-	-	7,981
Increase in due from Reserve Fund	-	-	16,082	6,964
	16,057	15,215	33,685	22,246
Decrease in assets				
Benefit payments (Note 12)	8,468	8,147	7,979	7,339
Reversal of transfer to CRA from the Reserve Fund	-	-	7,981	-
Investment expenses (Note 13)	769	763	23	23
Administrative expenses (Note 14)	206	149	144	105
	9,443	9,059	16,127	7,467
Increase in net assets	6,614	6,156	17,558	14,779
Net assets available for benefits at beginning of year	153,198	147,042	208,379	193,600
Net assets available for benefits at end of year	$ 159,812	$ 153,198	$ 225,937	$ 208,379

Statement of Pension Obligation

Year ended March 31, 2019

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2019	2018	2019	2018
Increase in pension obligation				
Interest accrued on benefits	$ 7,501	$ 7,407	$ 10,262	$ 9,928
Benefits earned	4,584	4,367	9,978	10,237
Increase due to actuarial assumption changes	1,575	-	-	-
Net experience losses (gains)	66	(1,913)	840	(4,994)
	13,726	9,861	21,080	15,171
Decrease in pension obligation				
Benefits, transfers and interest	8,468	8,147	7,979	7,339
	8,468	8,147	7,979	7,339
Net increase in pension obligation	5,258	1,714	13,101	7,832
Pension obligation at beginning of year	141,180	139,466	217,095	209,263
Pension obligation at end of year (Note 7)	$ 146,438	$ 141,180	$ 230,196	$ 217,095

The accompanying notes are part of these financial statements.

Notes to Financial Statements

Year ended March 31, 2019
(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, 2019 are 7.00% (2018: 7.00%) of *capped salary* for members and 19.56% (2018: 17.75%) of *capped salary for* the Province. In addition, annual payments by the Province of $nil (2018: $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, 2019 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 43.25% of salary in excess of capped salary In addition, annual payments by the Province to the Reserve Fund of $703 (2018: $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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2018, the Registered Plan adopted the accounting standard IFRS 9 - Financial Instruments on a prospective basis. There was no impact on the financial position or performance of the Registered Plan.

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 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... continued

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 measurement 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, 2019, securities held by the CCITF have a time weighted rate of return of 1.8% per annum (2018: 1.1% 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)

			2019	2018
Asset class	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income securities				
Deposits and short-term securities	$ 923	$ -	$ 923	$ 1,880
Bonds, mortgages and private debt	45,894	7,641	53,535	53,830
	46,817	7,641	54,458	55,710
Equities				
Canadian	24,277	-	24,277	23,071
Global	36,309	2,197	38,506	39,708
	60,586	2,197	62,783	62,779
Inflation sensitive				
Real estate	-	27,726	27,726	23,049
Infrastructure	-	12,111	12,111	9,186
Timberland	-	1,053	1,053	732
	-	40,890	40,890	32,967
Strategic and currency investments*	1	1,725	1,726	1,800
Total investments	$ 107,404	$ 52,453	$ 159,857	$ 153,256

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 5).

a) Fair Value Hierarchy:

The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Registered Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $107,404 (2018: $110,754).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, and inflation sensitive investments totalling $52,453 (2018: $42,502).

Reconciliation of Level 3 Investments

	($ thousands)	
	2019	**2018**
Balance, beginning of year	$ 42,502	$ 38,586
Investment income *	4,876	3,260
Purchases of Level 3 pooled fund units	8,927	6,020
Sale of Level 3 pooled fund units	(3,852)	(5,364)
Balance, end of year	$ 52,453	$ 42,502

* Investment income includes unrealized gains of $3,778 (2018: $71).

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

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

- ***Fixed income securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure is estimated by managers or general partners of infrastructure funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. More established investments

NOTE 4 INVESTMENTS continued

are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to inflation sensitive infrastructure investments. Currency investments consists of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pools (see Note 5f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts 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).

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2019 ($ thousands)	%	2018 ($ thousands)	%
Fixed income securities	30 - 45%	$ 54,458	34.0	$ 55,710	36.3
Equities	30 - 50%	62,783	39.3	62,779	41.0
Inflation sensitive	15 - 35%	40,890	25.6	32,967	21.5
Strategic and currency investments	(a)	1,726	1.1	1,800	1.2
		$ 159,857	100.0	$ 153,256	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.

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:

a) **Credit Risk**

i) Debt securities

The Registered Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade. Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Registered Plan's investment in debt securities by credit rating at March 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	84.9%	89.4%
Speculative Grade (BB+ or lower)	0.5%	0.6%
Unrated	14.6%	10.0%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Registered Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 5f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market

NOTE 5 INVESTMENT RISK MANAGEMENT continued

gains for the Registered Plan. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Registered Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2019, the Registered Plan's share of securities loaned under this program is $7,362 (2018: $9,437) and collateral held totals $7,802 (2018: $10,098). 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% (2018: 28%) of the Registered Plan's investments, or $44,109 (2018: $42,776), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 14% (2018: 14%) and the Euro, 3% (2018: 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 (2018: 2.8%).

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2019:

	($ thousands)			
	2019		2018	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 22,325	$ (2,233)	$ 21,205	$ (2,121)
Euro	5,048	(505)	5,270	(527)
British pound	3,846	(385)	3,245	(324)
Japanese yen	2,947	(295)	2,936	(294)
Hong Kong dollar	1,619	(162)	1,360	(136)
Other foreign currency	8,324	(832)	8,760	(876)
Total foreign currency investments	$ 44,109	$ (4,411)	$ 42,776	$ (4,278)

[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 2.4% (2018: 2.5%) of total investments.

d) **Price Risk**

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Registered Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Registered Plan would be approximately 4.9% of total investments (2018: 5.0%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) **Liquidity Risk**

Liquidity risk is the risk that the 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	**2019**	**2018**
Contracts in net favourable position (current credit exposure)	63	$ 5,913	$ 1,470
Contracts in net unfavourable position	16	(5,375)	(2,049)
Net fair value of derivative contracts	79	$ 538	$ (579)

NOTE 5 INVESTMENT RISK MANAGEMENT continued

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $5,913 (2018: $1,470) were to default at once.

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

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 5. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share *($ thousands)*	
Types of derivatives used in pools	2019	2018
Structured equity replication derivatives	$ 681	$ (376)
Foreign currency derivatives	(198)	(655)
Interest rate derivatives	37	411
Credit risk derivatives	18	41
Net fair value of derivative contracts	$ 538	$ (579)

(i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity derivatives. Rights, warrants, futures and options are also included as structured equity replication derivatives.

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

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

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

(v) At March 31, 2019, deposits in futures contracts margin accounts totaled $346 (2018: $364). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $609 (2018: $528) and $2 (2018: $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)	
	2019	2018
Interest-bearing securities	$ 88,562	$ 90,302
Public equities	82,142	80,781
Alternatives	40,481	33,019
Strategic currency investments	1,675	1,703
Net accounts payable	(99)	(9,126)
	$ 212,761	$ 196,679

During the year, net assets of the Reserve Fund increased by $16,082 (2018 $6,964), comprised of employer contributions of $8,344 (2018: $9,937), investment income of $14,506 (2018: $11,716) refund of prior year expenditure $1,146, less investment expenses of $803 (2018: $822), and transfers of $7,111 (2018: $12,721).

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, 2019. 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 $146,438 (2018: $141,180) 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:

	2019 %	2018 %
Discount rate	5.20	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, 2019 to determine the pension obligation of $230,196 (2018: 217,095) 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 (2018: 4.6%).

NET EXPERIENCE LOSSES (GAINS)

The Registered Plan net experience losses of $66 (2018: gains $1,913) reflect the results of the valuation as at March 31, 2017 extrapolated to March 31, 2019.

The Unregistered Plan net experience losses of $840 (2018: gains $4,994) reflect the results of the valuation as at March 31, 2017 extrapolated to March 31, 2019.

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, 2019:

	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%	$12.9	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%)	$17.5	5.2%

* 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, 2019:

	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%	$24.7	6.9%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$9.6	5.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$33.1	12.3%

* As a % of excess pensionable earnings

NOTE 8 SURPLUS (DEFICIT)

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2019	2018	2019	2018
Surplus (deficit) at beginning of year	$ 12,018	$ 7,576	$ (8,716)	$ (15,663)
Increase in net assets available for benefits	6,614	6,156	17,558	14,779
Net increase in pension obligation	(5,258)	(1,714)	(13,101)	(7,832)
Surplus (deficit) at end of year	$ 13,374	$ 12,018	$ (4,259)	$ (8,716)

NOTE 9 CONTRIBUTIONS

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2019	2018	2019	2018
Current service				
Employer	$ 3,383	$ 3,110	$ 1,245	$ 1,268
Employees	1,303	1,225	1,241	1,269
Province of Alberta	-	933	-	-
	$ 4,686	$ 5,268	$ 2,486	$ 2,537

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	2019 Total	2018 Total
Fixed income securities	$ 1,814	$ 1,425	$ 3,239	$ 1,029
Equities				
Canadian	1,341	299	1,640	760
Foreign	2,224	(309)	1,915	4,983
	3,565	(10)	3,555	5,743
Inflation sensitive				
Real estate	840	1,883	2,723	2,142
Infrastructure	143	1,629	1,772	752
Timberland	(31)	101	70	(1)
	952	3,613	4,565	2,893
Strategic and currency investments	11	1	12	282
	$ 6,342	$ 5,029	$ 11,371	$ 9,947

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 ($33) and $5,055 respectively (2018: $884 and ($1,342) respectively). Realized and unrealized gains and losses on currency hedges total $11 and ($4) respectively (2018: ($5) and ($3) respectively).

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 $25 (2018: $24).

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of the Registered Plan's investment returns, and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2019	2018	2017	2016	2015
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.3	5.2	9.5	0.1	13.1
Value added (lost) by AIMCo	0.7	1.1	1.3	1.8	(0.4)
Time weighted rate of return, at fair value [(a)]	**7.0**	**6.3**	**10.8**	**1.9**	**12.7**
Other sources [(b)]	(2.7)	(2.1)	(2.3)	(2.1)	(3.0)
Per cent change in net assets [(c)]	**4.3**	**4.2**	**8.5**	**(0.2)**	**9.7**
Per cent change in pension obligation [(c)]	**3.7**	**1.2**	**2.7**	**1.5**	**6.6**
Per cent of pension obligation supported by net assets	**109**	**109**	**105**	**100**	**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 7.7% (PBR: 6.8%), ten years is 9.9% (PBR: 8.7%) and 20 years is 6.8% (PBR: 6.2%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

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:

	2019	2018	2017	2016	2015
			in per cent		
Per cent change in net assets [(a)]	**8.4**	**7.6**	**13.8**	**6.0**	**14.7**
Per cent change in pension obligation [(a)]	**6.0**	**3.7**	**8.4**	**8.8**	**15.6**
Per cent of pension obligation supported by net assets	**98**	**96**	**93**	**88**	**90**

(a) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 12 BENEFIT PAYMENTS

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2019	2018	2019	2018
Retirement benefits	$ 8,013	$ 7,710	$ 7,660	$ 7,043
Death benefits	455	421	319	279
Termination Benefits	-	16	-	17
	$ 8,468	$ 8,147	$ 7,979	$ 7,339

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands)	
	2019	2018
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 635	$ 613
Performance based fees [(a)]	77	96
GST	26	23
	738	732
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	31	31
Total investment expenses	$ 769	$ 763
Increase in expenses	0.8%	2.4%
Increase in average investments under management	4.3%	6.3%
Increase in value of investments attributed to AIMCo	0.7%	1.1%
Investment expense as a percent of dollar invested	0.5%	0.5%
Investment expenses per member	$ 2,530	$ 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 0.4% (2018: 4.4%).

The Unregistered Plan investment expenses amounted to $23 (2018: $23) or $82 (2018: $85) per member.

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2019	2018	2019	2018
General administration costs	$ 195	$ 122	$ 138	$ 85
Actuarial fees	6	20	6	20
Other fees	5	7	-	-
	206	149	144	105
Member service expenses per member	$ 676	$ 506	$ 513	$ 382

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 $975 (2018: $913) or $3,206 (2018: $3,093) per member and 0.61% (2018: 0.60%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $167 (2018: $128) or $595 (2018: $467) per member and 0.07% (2018: 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 related to the fair value hierarchy in Note 4 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool unit. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

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, 2019	**March 31, 2018**
Net assets available for benefits - Registered Plan	$ 159,812	$ 153,198
Net assets available for benefits - Unregistered Plan *	225,937	208,379
	385,749	361,577
Pension Obligation - Registered Plan	146,438	141,180
Pension Obligation - Unregistered Plan	230,196	217,095
	376,634	358,275
Surplus of aggregate assets over aggregate accrued benefits	$ 9,115	$ 3,302

* Includes due from Reserve Fund for 2019 $212,761 (2018: $196,679)

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2018, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Public Service Management (Closed Membership) Pension Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Public Service Management (Closed Membership) Pension Plan financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

I am responsible for expressing an independent opinion on the financial statements of the Public Service Management (Closed Membership) Pension Plan and reporting that opinion to you based on my audit.

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

April 23, 2019

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2018

	($ thousands) 2018	2017
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 7,252	$ 6,554
Accounts receivable	92	236
Total Assets	7,344	6,790
Liabilities		
Accounts payable	20	18
Total Liabilites	20	18
Net assets available for benefits	$ 7,324	$ 6,772
Pension obligation and deficit		
Pension obligation (Note 3)	$ 488,089	$ 520,110
Deficit (Note 4)	(480,765)	(513,338)
Pension obligation and deficit	$ 7,324	$ 6,772

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2018

	($ thousands) 2018	2017
Increase in assets		
Contributions from the Province of Alberta	$ 48,000	$ 48,000
Investment income	126	81
	48,126	48,081
Decrease in net assets		
Benefit payments (Note 6)	47,158	49,124
Administration expenses (Note 7)	416	296
	47,574	49,420
Increase (decrease) in net assets	552	(1,339)
Net assets available for benefits at beginning of year	6,772	8,111
Net assets available for benefits at end of year	$ 7,324	$ 6,772

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2018

	($ thousands) 2018	2017
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 18,123	$ 19,795
Net increase due to actuarial assumption changes (Note 3a)	3,727	3,960
	21,850	23,755
Decrease in pension obligation		
Benefits paid	47,158	49,124
Net experience gains (Note 3b)	6,713	-
	53,871	49,124
Net decrease in pension obligation	(32,021)	(25,369)
Pension obligation at beginning of year	520,110	545,479
Pension obligation at end of year (Note 3)	$ 488,089	$ 520,110

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2018

(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 highest average salary over 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 before August 1, 1992 and subsequently terminated are also entitled to a pension.

d) COST-OF-LIVING ADJUSTMENTS

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. The increase is prorated for pensions that became payable within the year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF CASH AND CASH EQUIVALENTS

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 4th business day following the year end.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the measurement date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of the pension obligation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the pension obligation (see Note 3a).

f) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2017 by Aon Hewitt and was then extrapolated to December 31, 2018.

The actuarial assumptions used in determining the value of the pension obligation of $488,089 (2017: $520,110) reflect management's best estimate, as at the measurement date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate and inflation rate.

The major assumptions used for accounting purposes were:

	2018	2017
	%	%
Inflation rate	2.00	2.00
Discount rate	3.60	3.70
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

An actuarial valuation of the Plan as at December 31, 2020 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2021.

b) NET EXPERIENCE GAINS

Net experience gains of $6,713 (2017: $nil) reflect the results of the valuation as at December 31, 2017 extrapolated to December 31, 2018.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

NOTE 3 PENSION OBLIGATION continued

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2018:

	($ thousands)	
	Changes in Assumptions %	Increase in Plan Deficiency $
Inflation rate increase holding the discount rate assumption constant	1.0	$ 23,121
Discount rate decrease holding the inflation rate assumption constant	(1.0)	41,617

NOTE 4 DEFICIT

	($ thousands)	
	2018	2017
Deficit at beginning of year	$ (513,338)	$ (537,368)
Increase (decrease) in net assets available for benefits	552	(1,339)
Net decrease in pension obligation	32,021	25,369
Deficit at end of year	$ (480,765)	$ (513,338)

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, 2018, securities held by the Fund have a time weighted rate of return of 1.7% per annum (2017: 0.9% per annum).

NOTE 6 BENEFIT PAYMENTS

	($ thousands)	
	2018	2017
Retirement benefits	$ 45,755	$ 47,653
Disability benefits	201	214
Termination benefits	25	19
Death benefits	1,177	1,238
	$ 47,158	$ 49,124

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands) 2018	2017
General administration costs	$ 379	$ 273
Investment management costs	13	14
Actuarial fees	24	9
	$ 416	$ 296

General administration costs were paid to Alberta Pensions Services Corporation on a cost-recovery basis. The Plan's share of the Corporation's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board, Minister of Finance.

Investment management costs were paid to Alberta Investment Management Corporation and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $247 (2017: $168) per member.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by Alberta Pensions Services Corporation and the Plan's actuary.

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SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Table of Contents

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2018, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

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

Other Information

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

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

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

When I read the Annual Report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Supplementary Retirement Plan for Public Service Managers' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Supplementary Retirement Plan for Public Service Managers financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the entity to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the audit. I remain solely responsible for my audit opinion.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

I am responsible for expressing an independent opinion on the financial statements of the Supplementary Retirement Plan for Public Service Managers and reporting that opinion to you based on my audit.

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

April 23, 2019

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2018

	($ thousands) 2018	2017
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 19,447	$ 20,569
Refundable income tax (Note 1f and Note 5)	36,541	36,597
Contributions receivable		
Employers	128	128
Employees	126	128
Due from Alberta Pensions Services Corporation	444	456
Due from SRP Reserve Fund (Note 6)	133,157	129,571
Total Assets	189,843	187,449
Liabilities		
Income tax payable	265	317
Other payables	1	894
Total Liabilities	266	1,211
Net assets available for benefits	189,577	186,238
Pension obligation and deficit		
Pension obligation (Note 7)	259,887	241,222
Deficit (Note 8)	(70,310)	(54,984)
Pension obligation and deficit	$ 189,577	$ 186,238

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2018

	($ thousands) 2018	2017
Increase in assets		
Contributions (Note 9)	$ 6,623	$ 7,267
Increase in SRP Reserve Fund (Note 6)	3,586	15,079
Investment income (Note 10)	399	717
	10,608	23,063
Decrease in assets		
Benefit payments (Note 11)	6,473	8,297
Investment expenses (Note 12)	49	54
Administrative expenses (Note 13)	747	756
	7,269	9,107
Increase in net assets	3,339	13,956
Net assets available for benefits at beginning of year	186,238	172,282
Net assets available for benefits at end of year	$ 189,577	$ 186,238

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2018

	($ thousands) 2018	2017
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 10,695	$ 9,262
Net increase due to actuarial assumption changes (Note 7a)	4,255	-
Benefits earned	10,188	9,498
Net experience losses (Note 7b)	-	8,457
	25,138	27,217
Decrease in pension obligation		
Benefits paid	6,473	8,297
	6,473	8,297
Net increase in pension obligation	18,665	18,920
Pension obligation at beginning of year	241,222	222,302
Pension obligation at end of year (Note 7)	$ 259,887	$ 241,222

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2018

(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 have attained 35 years of combined pensionable service cannot subsequently start participating in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the 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, 2018 were 12.80% (2017: 12.80%) of pensionable earnings over the MEPP salary cap limit for eligible employees and designated employers.

An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the President of Treasury Board, Minister of Finance.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the MEPP salary cap for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

Vested members are entitled to an unreduced pension on service if they have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

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) CHANGE IN ACCOUNTING POLICY

Effective January 1, 2018, the Plan adopted the accounting standard IFRS 9 - Financial Instruments on a prospective basis. There was no impact on the financial position or performance of the Plan.

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 measurement 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)]		2018	2017
Asset class	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities				
Cash and short-term securities	$ 432	$ -	$ 432	$ 270
Bonds	19,015	-	19,015	20,299
Total Investment	$ 19,447	$ -	$ 19,447	$ 20,569

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

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $19,447 (2017: $20,569).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totalling $nil (2017: $nil).

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

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

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4d). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts 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. Unrated debt securities consist primarily of mortgages and private debt placements.

The table below summarizes debt securities by credit rating at December 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	97.6%	97.4%
Speculative Grade (BB+ or lower)	0.5%	0.4%
Unrated	1.9%	2.2%
	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, 2018, the Plan's share of securities loaned under this program is $1,577 (2017: $4,141) and collateral held totals $1,670 (2017: $4,482). 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 7.6% (2017: 7.3%).

c) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4d).

NOTE 4 INVESTMENT RISK MANAGEMENT continued

d) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	2018	2017
Contracts in net favourable position (current credit exposure)	11	$ 118	$ 189
Contracts in net unfavourable position	10	(113)	(7)
Net fair value of derivative contracts	21	$ 5	$ 182

(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 $118 (2017: $189) 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	$ 3	$ -
Interest rate derivatives	20	163
Foreign currency derivatives	(20)	6
Credit risk derivatives	2	13
Net fair value of derivative contracts	$ 5	$ 182

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

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

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

(iv) At December 31, 2018, deposits in futures contracts margin accounts totaled $49 (2017: $24). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $108 (2017: $59) and $nil (2017: $nil).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2018	2017
Refundable income tax at beginning of year	$ 36,597	$ 35,371
Tax on employees and employers contributions received	3,316	3,641
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(3,372)	(2,415)
Refundable income tax at end of year	$ 36,541	$ 36,597

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the President of Treasury Board, Minister of Finance. The employer contribution rate is 9.9% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the President of Treasury Board, Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2018, the SRP Reserve Fund had net assets with fair value totalling $133,157 (2017: $129,571), comprising of $133,157 (2017: $129,571) in investments and $nil (2017: $nil) in receivables. The increase during the year of $3,586 (2017: $15,079) is attributed to contributions from employers of $2,636 (2017: $2,549), investment gains of $950 (2017: $12,530).

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, 2018.

The actuarial assumptions used in determining the value of the pension obligation of $259,887 (2017: $241,222) reflect management's best estimate, as at the measurement date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is determined by taking the plan specific asset allocation and applying the average of the expected long term asset returns determined by independently developed investment models; less expected plan investment expenses; and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 7 PENSION OBLIGATION continued

The major assumptions used for accounting purposes were:

	2018	2017
	%	
Discount rate on an after-tax basis	4.30	4.40
Inflation rate	2.00	2.00
Discount rate	5.70	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 $nil (2017: $8,457) reflect the results of the valuation as at December 31, 2016 extrapolated to December 31, 2018.

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, 2018:

	($ 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	23,765	872
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	56,821	4,886
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	48,900	2,558

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands) 2018	2017
Deficit at beginning of year	$ (54,984)	$ (50,020)
Increase in net assets available for benefits	3,339	13,956
Net increase in pension obligation	(18,665)	(18,920)
Deficit at end of year	$ (70,310)	$ (54,984)

NOTE 9 CONTRIBUTIONS

	($ thousands) 2018	2017
Employers	$ 3,312	$ 3,634
Employees	3,311	3,633
	$ 6,623	$ 7,267

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	2018	2017 Total
Interest-bearing securities	$ 557	$ (158)	$ 399	$ 717

The change in fair value includes realized gains and losses from disposal of pool units totaling ($84) (2017: ($16)) and unrealized gains and losses on units totaling ($73) (2017: ($283)).

Income earned in pools is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, and income and expense on derivative contracts.

NOTE 11 BENEFIT PAYMENTS

	($ thousands) 2018	2017
Retirement benefits	$ 6,095	$ 5,374
Termination benefits	327	2,537
Death benefits	51	386
	$ 6,473	$ 8,297

NOTE 12 INVESTMENT EXPENSES

	($ thousands) 2018	2017
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 23	$ 27
GST	1	2
	24	29
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	25	25
Total investment expenses	$ 49	$ 54
Decrease in expenses	(9.3%)	(10.0%)
Decrease in average investments under management	(5.8%)	(2.5%)
Investment expense as a percent of dollar invested	0.2%	0.3%
Investment expenses per member	$ 21	$ 23

(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 in investment costs and performance based fees is (14.8%) (2017: (15.6%)).

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $747 (2017: $756) were charged to the Plan on a cost recovery basis.

	($ thousands) 2018	2017
General administration costs	$ 729	$ 704
Actuarial fees	12	40
Other professional fees	6	12
	$ 747	$ 756
Member service expenses per member	$ 316	$ 325

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the President of Treasury Board, Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $796 (2017: $810) or $337 (2017: $348) per member and 0.42% (2017: 0.43%) 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

Certain comparative figures have been reclassified to be consistent with 2018 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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