SUPPORTING COMMUNITIES

ALBERTA CAPITAL FINANCE AUTHORITY

ANNUAL REPORT

2018

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Municipal of Crowsnest Pass

Crowsnest Pass Community Pool

This project took an aged facility and transformed it into a hub for families to gather during the summer from all over the region. With the addition of the zero-entry beach and vortex pool, it has enabled seniors access for resistance hydrotherapy. The spray toys, tot pool and waterslide allow children of all ages to enjoy. Not to mention, the six-lane junior Olympic pool that supports our competitive swim club. Our community is proud to have this facility to enjoy for many years to come.

Patrick Thomas
Chief Administration Officer, Municipality of Crowsnest Pass


CAUTION

Directors And Representatives

Board members and representatives listed are in service as of December 31, 2018.

Board of Directors:

Appointed

All representing Class A shareholder

Frank Hawkins
Board Chair,
Public Member

Pamela Keenan
Board Vice Chair,
Public Member

Bob W. Gibson
Public Member

Lowell Epp
Assistant
Deputy Minister,
Alberta Treasury
Board and Finance

Anthony Lemphers
Assistant Deputy
Minister, Alberta
Municipal Affairs

Board of Directors:

Elected

Ed Kaemingh
Representing Class
B shareholders

Ed Gibbons
Representing Class
C shareholders

Kim Craig
Representing Class
D shareholders

Ronald Ritter
Representing Class
E shareholders

President:

Troy Holinski
President

Representatives:

Audit Committee

Ronald Ritter
Audit Chair

Vacant
Audit Vice Chair

Frank Hawkins
Member

Anthony Lemphers
Member

Ed Kaemingh
Member

Asset Liability Committee

Troy Holinski
Asset Liability Chair

Asset Liability Committee comprised of Alberta Capital Finance Authority Officers and Alberta Treasury Board and Finance Representatives

Officers

Troy Holinski
President

Bernadiene Hsie
Vice President,
Senior Financial Officer

Rachel Anderson
Senior Administrative Assistant & Corporate Officer

Sherri Bullock
Senior Loans Officer

Clement Benoit
Senior Accounting Officer

Preet Daly
Finance Officer

Organization

Mission

To provide shareholders within the Province of Alberta with flexible funding for capital projects on a prudent basis consistent with the viability of the Alberta Capital Finance Authority (ACFA).

Authority

ACFA is a provincial corporation established in 1956 under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

Shareholders

The authorized stock of ACFA consists of the following shares with a par value of $10 each:

- 4,500 Class A - available only to the Crown;
- 1,000 Class B – available only to municipal authorities (includes improvement districts, Métis settlements, municipal districts, counties, special areas and specialized municipalities), regional authorities (includes drainage districts, irrigation districts, regional airport authorities and regional services commissions) and health authorities (includes non-profit corporations who own an approved hospital, a regional health authority and a provincial health board);
- 750 Class C – available only to cities;
- 750 Class D – available only to towns and villages; and
- 500 Class E – available only to educational authorities (includes school districts and divisions, colleges, technical institutes, universities and Northland School Division)

The business of ACFA is governed by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Various loan options are provided to ACFA shareholders. Terms and conditions are prescribed by lending policy.

Financing

The Province of Alberta issues various debt obligations, which it on-lends to ACFA to obtain the funds necessary to finance loan requirements. All these obligations carry the unconditional guarantee of the Province of Alberta.

Grant MacEwan University

Allard Hall Roundhouse

Roundhouse at MacEwan University empowers members to make a positive impact on the world through our coworking space, programs, resources and community of changemakers. Roundhouse brings together community members, entrepreneurs and MacEwan faculty and students in a vibrant, open concept of approximately 12,300 square foot space that includes a variety of office spaces, a marketplace, meeting rooms, event venue and lounge. Home to MacEwan University's Social Innovation Institute, Roundhouse is a space where anything can happen from brainstorming sessions to paper airplane battles. It's a place where ideas and community can collide.

Kris Bruckmann
Executive Director, Campus Services, Grant MacEwan University

Governance and Management

Board of Directors

The ACFA Board of Directors (Board) is responsible for the governance of ACFA and overseeing the management of ACFA's business and affairs. The Board guides ACFA's strategic direction, evaluates the performance of ACFA, approves and monitors ACFA's business plan, operational plan and financial results and is ultimately accountable to the Minister and shareholders. Board members must act honestly and in good faith.

The Board is comprised of five members appointed by the Lieutenant Governor in Council and four members each elected by different classes of shareholders (other than the Class A shareholder, being the Province), all in accordance with the provisions of the *Alberta Capital Finance Authority Act* and the bylaws of the Corporation. Directors are appointed or elected for a fixed term of up to three years, with the potential for reappointment.

The Board has established the Audit Committee and Asset Liability Committee to assist the Board in discharging its oversight responsibilities.

Audit Committee

The Audit Committee is appointed by the Board to assist the Chair and Board of Directors of ACFA in monitoring the financial reporting, corporate governance, accountability processes and control systems in ACFA and is fully accountable to the Board. It does so by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions.

Asset Liability Committee

The Asset Liability Committee is a management committee that manages ACFA's key interest rate and market risks to minimize the risk that ACFA's equity decreases due to a significant unexpected loss. These risks include (but are not limited to):

- risks due to unexpected changes in interest rates;
- 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 re-financing risks;
- loan prepayment risk; and
- loan pricing risk.

The Asset Liability Committee will formulate and evaluate strategies within Board policy limits to manage ACFA's interest rate and market risks. The Asset Liability Committee will also review the Board policies regarding interest rate risk management, funding, loan prepayment and loan pricing on an annual basis and, where appropriate, recommend changes in these policies to the Board.

Town of Cochrane

Griffin Road East Bridge Construction

> The new bridge over the Bow River and supporting corridor is slated to be completed in the Fall of 2020. This project is a priority of Council, as we work to connect our road network, achieve positive traffic and pedestrian flows, and ensure safe pedestrian and cycling connectivity. This infrastructure investment aims to alleviate traffic congestion, as it allows residents from the southern communities of Riviera and Riversong to move into our core without using the highway. It will also provide an important secondary access for emergency responders.

Jeff Genung
Mayor, Town of Cochrane

Message From The Chair And The President

While it was another volatile year in the Alberta economy, ACFA continued to support communities with its capital funding providing flexible loans at attractive rates to its shareholders. AFCA, working with its shareholders and the Government of Alberta, stands ready to provide financing solutions for projects that enhance the Province's communities and quality of life.

We welcomed Ed Kaemingh to our Board in 2018. He is representing our Class B shareholders, taking over from Tracy Anderson who completed her term. Our thanks to Tracy for her service over 3 years.

ACFA maintained its steady course of searching out further organizational and operational efficiencies while streamlining and modernizing its everyday operations. ACFA's Information Technology (IT) Modernization Strategy progressed nicely with a move to cloud-based email and file storage giving access to ACFA's information and files from remote locations. We look forward to the coming year where technological advances in the form of new loan and debt systems should substantially improve ACFA's client access and ongoing operational efficiencies.

Overall, new loans issued in 2018 increased by $45 million from 2017, with new loans issued of $1.3 billion. Of the new loans issued, financing was most significantly focused on community development infrastructure such as sewer, water and utilities infrastructure and roads and sidewalk construction. Much of this activity supported growing communities or renovations and maintenance of aging community infrastructure.

Among other things, the Board took action on the Government initiative to modify its policy in line with the amended *Conflicts of Interest Act* (Alberta).

ACFA looks to continue to foster the strong relationships it has developed with its clients. The strength of these relationships and the value added to ACFA's clients is evident in the results of the ACFA Annual Client Survey with over 90% of respondents agreeing or strongly agreeing that ACFA provides the utmost professionalism and service along with client-specific financial solutions.

Alberta has much to look forward to and ACFA plans to be a significant partner in our communities' continued success. ACFA looks forward to helping not only build resilient communities but also to providing solutions to maintain and support communities. ACFA will continue to work together with its clients today and into the future.

[Original signed by Frank Hawkins]

Frank Hawkins
Chair of the Board

[Original signed by Troy Holinski]

Troy Holinski
President

County of Strathcona

Ardrossan Water Reservoir and Pump House

The 2017 Strathcona County Municipal Development Plan prioritized the hamlet of Ardrossan for future growth. To support this community's development, essential water and wastewater infrastructure required upgrading. The major components of the Ardrossan Water and Wastewater Upgrade project included a new underground water reservoir, pumphouse, transmission watermains and upgraded truck fill, as well as a new wastewater collection system and lift station. This new infrastructure will provide the necessary water (with increased fire protection) and wastewater services to support new businesses and residents as Ardrossan continues to grow.

Rod Frank
Mayor, County of Strathcona

Management Discussion And Analysis

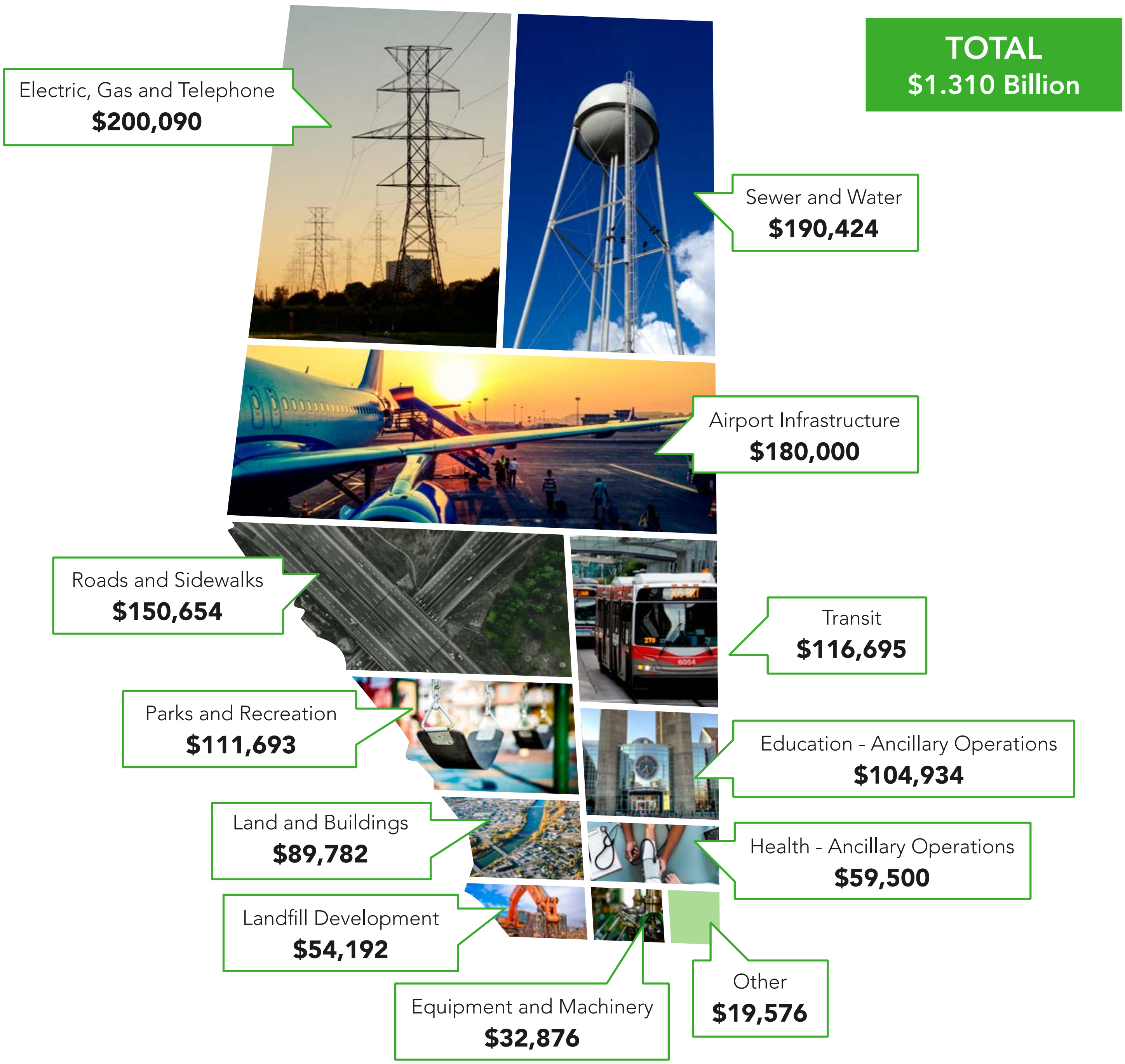
The following provides management's analysis of the financial position and results of operations of the Alberta Capital Finance Authority (ACFA) for the year ended December 31, 2018.

Loans

During 2018, ACFA's loan portfolio increased from $15,612 million to $15,971 million, an increase of $359 million. New loans issued during the year totaled $1,310 million, an increase of $45 million from new loans issued in 2017. Loan repayments totaled $885 million and loan prepayments totaled $66 million.

Analysis of New Loans Issued

By jurisdiction and purpose for the year ended December 31, 2018 (in thousands of dollars)



Ten Year Loan Review 2009 – 2018

(in thousands of dollars)

	2018	2017	2016
New Loans Issued During the Year			
By Jurisdiction			
Cities	$ 782,938	$ 749,347	$ 874,535
Colleges, technical institutes and universities	104,934	113,035	264,749
Counties, municipal and irrigation districts, regional services commissions and Métis settlements	77,526	92,451	66,856
Health authorities	59,500	69,469	33,772
Regional airport authorities	180,000	175,000	230,000
School districts and divisions	-	9,883	-
Specialized municipalities	17,620	11,432	40,026
Towns and villages	87,897	44,741	67,531
Total	**$ 1,310,415**	**$ 1,265,358**	**$ 1,577,469**
Loans repaid during year	951,450	1,220,000	1,110,323
Loans outstanding at December 31	15,971,147	15,612,182	15,566,824
Debt issued during year	11,344,094	11,688,228	12,578,684
Debt repaid during year	10,681,070	11,817,586	12,332,455
Debt outstanding at December 31(1)	16,098,870	15,338,330	15,459,681
Accumulated operating surplus at December 31(2)	485,399	447,721	405,406
Lending rate at December 31 *(based on 20 year term)*(3)	3.254%	2.915%	3.058%

(1) Debt outstanding is the contractual principal amount and excludes unamortized premiums, discounts and commission fees.

(2) Effective January 1, 2013, remeasurement gains and losses were prepared in accordance with PS 3450 and the accumulated operating surplus has been restated for the years 2009 to 2012.

(3) The lending rates for the years 2016 and 2012 have been restated.

Ten Year Loan Review 2009 – 2018

(in thousands of dollars)

2015	2014	2013	2012	2011	2010	2009
New Loans Issued During the Year						
By Jurisdiction						
$ 856,455	$ 1,268,006	$ 965,741	$ 1,038,483	$ 934,531	$ 1,252,567	$ 1,600,849
35,500	197,500	185,575	48,591	34,416	102,600	65,000
70,328	47,979	74,314	127,642	70,331	104,018	80,657
55,389	5,000	-	32,300	176,000	15,000	55,000
375,000	573,000	427,901	930,000	603,000	390,000	40,000
3,815	-	10,000	5,000	-	2,553	-
4,600	4,411	22,408	21,695	6,480	206,332	46,201
58,178	60,885	42,435	91,518	50,833	74,737	81,164
$ 1,459,265	**$ 2,156,781**	**$ 1,728,374**	**$ 2,295,229**	**$ 1,875,591**	**$ 2,147,807**	**$ 1,968,871**
1,119,826	896,295	616,856	748,646	558,690	541,729	640,379
15,099,678	14,760,239	13,499,753	12,388,235	10,841,652	9,524,751	7,918,673
9,498,090	6,975,269	9,817,168	10,194,626	6,342,634	6,126,386	6,895,208
9,284,730	5,879,467	8,624,025	8,750,958	5,041,780	4,526,162	5,596,477
15,219,546	14,772,276	13,550,326	12,234,586	10,798,646	9,497,846	7,899,846
351,727	294,096	236,849	184,979	134,293	100,076	65,357
2.831%	2.957%	3.623%	2.958%	3.145%	4.124%	4.395%

City of Lethbridge

Watermark Community

Watermark is a new community in West Lethbridge that is home to the Joyce Fairbairn Middle School. The innovative school grounds are complete with soccer fields, a baseball diamond, skate plaza, BMX pump track, outdoor fitness and play equipment, rock climbing structure and basketball courts. This neighbourhood will feature a network of pathways, commercial space, a mix of residential housing and a fire station scheduled to open in 2020.

Watermark will develop and grow over approximately the next 30 years, providing homes for an estimated 4,200 people. Funding from Alberta Capital Finance Authority for this project was essential in helping the City of Lethbridge support our community in a timely manner.

Bramwell Strain
City Manager, City of Lethbridge

Results of Operations

ACFA's net income before administration and other expenses was $39 million. The annual operating surplus before unrealized changes in fair value of derivatives and foreign exchange was $38 million. When added to the opening accumulated operating surplus, the ending operating surplus was $485 million.

In addition to the operating surplus of $38 million, ACFA recorded net remeasurement gains of $195 million on changes in the fair value of derivatives and net remeasurement losses of $101 million on foreign currency translation. As a result, the accumulated deficit of $135 million as at December 31, 2017 improved by $132 million to an accumulated deficit of $3 million as at December 31, 2018.

Corporate Performance

ACFA identified a number of key performance indicators in its 2018 business plan that the organization established and measured over the fiscal year. These measures illustrate the state of the corporate health and direction of the organization. The following is a summary of the key indicators and how ACFA performed against them.

Goal 1:

Execute Information Technology (IT) Modernization strategies and recommendations over the next few years that will realize significant enhancements in operational efficiency, borrower experience and risk mitigation.

Performance:

ACFA realized significant systems efficiencies and mitigated an IT related risk by implementing a new cloud-based IT environment for email and file management. This has greatly reduced IT downtime and increased accessibility for ACFA digital content from virtual locations.

Goal 2:

Demonstrate continuous and wholesome improvement in attaining a minimum of 85% agree or strongly agree ratings in all areas of the annual Client Satisfaction Survey.

Performance:

ACFA's average response on our five key client related survey questions was a rating of agree or strongly agree on 90% of the survey responses from our clients.

Goal 3:

Maintain the historical standard of zero loan defaults, as held since the Authority's inception.

Performance:

Zero loan defaults were incurred by ACFA.

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Interest Rates

ACFA provides fixed rate loans to its borrowers. Loan rates are based on an estimate of the interest rate at which the Province of Alberta could borrow for a bond with the same characteristics of the loan. If it is possible to fund the loan with a matching debt instrument, the actual rate of the debt instrument will be used as the loan rate.

Debt

The contractual principal amount of ACFA's debt increased from $15,338 million to $16,099 million, an increase of $761 million. During the year, ACFA borrowed a total of $11,344 million consisting of $9,555 in short-term notes (period of 90 days or less) and $1,789 million in long-term debt (period of 1 year or more). ACFA repaid a total of $10,681 million consisting of $9,101 million in short-term notes and $1,580 million in long-term fixed and floating rate debt.

The outstanding contractual principal owed by ACFA at December 31, 2018, includes the following foreign currency denominated fixed rate debt:

- $485 million Australian Dollar (2017 - $485 million);
- €225 million European Euro (2017 - €225 million);
- £650 million UK Pound Sterling (2017 - £650 million); and
- $600 million US dollar (2017 - $600 million).

The foreign currency denominated debt translates to $2,770 million CAD (2017 - $2,669 million CAD). All foreign currency cash flows are simultaneously swapped to floating rate Canadian dollar denominated cash flows, thus mitigating foreign currency risk. The strategy to manage foreign currency risk is outlined in Note 13 (g) – Foreign Currency Risk in the financial statements.

Red Deer College

Gary W. Harris Canada Games Centre

Community members, organizations, athletic teams and recreational enthusiasts will all benefit from the dynamic opportunities in the beautiful and accessible Gary W. Harris Canada Games Centre. Open 7 days a week including all the fitness and leisure activities made available as well as local business partnerships for training, coaching, sports therapy clinic, and retail businesses all under one roof for everyday access. The Centre also offers a variety of sponsorship opportunities for businesses to promote their organizations.

The Gary W. Harris Canada Games Centre has also been named the legacy building for the 2019 Canada Winter Games and will continue to provide health, wellness and sport opportunities to community members for decades to come. We take pride in creating a comfortable and safe environment where everyone is encouraged to lead a healthy and active lifestyle while enjoying their time.

Jim Brinkhurst
Vice President, College Services and Chief Financial Officer, Red Deer College

Risk Management

Effective risk management is essential to ensure a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. ACFA is primarily exposed to:

Market risk, Interest rate risk, Liquidity risk, Operational risk, and Credit risk.

The President of ACFA, in conjunction with the Asset Liability Committee (ALCO), is responsible for identifying risks and recommending the appropriate policies and framework to mitigate risks. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor adherence to these policies.

ACFA's Asset Liability Committee assesses the market and key interest rate risks, develops benchmarks and policies to measure and mitigate these risks, and provides recommendations to the Board. A risk registry has been developed by the ALCO to highlight potential risks, assess the probability and impact of those risks, and identify risk mitigation currently utilized. The Board and Management use this risk registry to develop and enhance ACFA's risk policies.

Market Risk

Market risk is the impact on ACFA's operating results from changes in market factors such as interest rates and foreign exchange. ACFA requires all borrowing be denominated in Canadian dollars or borrowing in foreign currencies be swapped to Canadian dollars. Financial statement items impacted by changes in interest rates include interest income, interest expense and the changes in fair value of interest rate swaps. A significant market risk is repricing risk, which arises when there is a mismatch between the maturity and repricing of interest bearing assets and liabilities. This repricing risk also results from ACFA's willingness to allow for some prepayments on existing loans.

The Stop-Loss Settlement Policy is structured to protect ACFA from significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at lower rates. ACFA does not have the ability to prepay any of its public debt and can only prepay the Canada Pension Plan Investment Fund if it incurs a penalty based on current market rates, which would not make it economically advantageous. ACFA's Stop-Loss Settlement Policy is an integral part of its long-term financial planning.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on ACFA's net interest income when maturities of its interest rate sensitive assets are not matched with maturities of its interest rate sensitive debt. ACFA uses interest rate swaps for the purpose of managing its asset and liability position. ACFA's policy is to match the interest rate exposure on all new loans to the interest rate exposure of the debt used to fund these loans. In most cases, fixed interest rates on new loans and debt are swapped to floating rates so that the floating rates paid and received incorporate changes in the market rate at approximately the same time. ACFA utilizes long-term debt issuances as a means of financing its loan and cash flow demands. However, with rates for short-term borrowing remaining very low, ACFA continued to utilize short-term notes as a funding source for some of its financing requirements.

The Board recognizes the unique risks associated with the use of derivative financial instruments and has established policies and procedures to monitor and minimize exposure to ACFA. These policies and procedures limit the type of derivative financial instruments and circumstances where they can be used, prescribe the authorities required to approve the transaction and establish the appropriate segregation of duties to reduce operational risk.

Liquidity Risk

Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations such as debt payments and redemptions, and cash collateral postings under Credit Support Annexes while meeting the loan requirements of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested short-term in the Province of Alberta's Consolidated Cash Investment Trust Fund. When required, ACFA works with the Province of Alberta to obtain funding in the Canadian and international capital markets. Since April 2011, all debt is borrowed directly by the Province of Alberta, who in turn on-lends it to ACFA. All ACFA borrowing is guaranteed by the Province of Alberta. For additional information, see Note 13 (e) – Liquidity Risk in the financial statements.

Operational Risk

Operational risk is the risk associated with internal control breakdowns, information technology systems or procedural failures, information security breaches, human errors or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies, information technology security monitoring and maintenance, and sound internal controls through an appropriate segregation of duties, accountabilities and reporting practices.

The audit of the financial statements was conducted in accordance with Canadian generally accepted auditing standards and in completion of the audit, the auditor considers internal controls relevant to ACFA's preparation and presentation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The objective of a financial statement audit is to obtain reasonable assurance whether the financial statements are free of material misstatement. Accordingly, an audit would not usually identify all matters that may be of interest to management and the Audit Committee, however, any significant weaknesses identified in internal controls over financial reporting, or other non-trivial matters, are communicated to management and the Audit Committee.

Credit Risk

Credit risk is the risk of loss due to a borrower or counterparty failing to meet their obligations to ACFA. Historically, ACFA has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Board 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.

Credit risk on counterparty default arises with the use of derivatives. To control this risk, ACFA has adopted the counterparty risk policy established by the Province of Alberta that sets out counterparty limits and allowable counterparties. ACFA is not exposed to credit risk for the full face value (notional amount) of the derivative contracts, but only to the potential replacement cost if the counterparties fail. Under Credit Support Annexes entered into under the Province of Alberta's derivative master agreements, counterparties or ACFA are obligated to post collateral based on established thresholds which further enhances ACFA's credit position. This exposure is represented by the current replacement cost of all outstanding contracts in a favourable position. For additional information, see Note 8 – Derivative Financial Instruments in the financial statements.

Bethany Riverview

Bethany Riverview is a purpose-built care centre located on a 12-acre campus of care for seniors called Riverview Village. The campus is also home to seniors living in affordable housing units. It is designed to support seniors to age in their community from those living independently to those requiring long-term and complex dementia care.

The features and amenities in the 200,000 square foot care centre are specifically designed with the unique care needs in mind of people living with dementia. Of the 210 private rooms, 120 are dedicated for people with complex dementia. The commitment to creating a homelike environment is evident, with spaces that are filled with natural light, soothing colours and are intentionally designed to connect with residents' senses of sight, smell and sound, as well as promote meaningful activities and moments.

We are meeting a very real need in Calgary with the opening of Bethany Riverview. Calgary's population is aging and the number of people suffering with dementia is rising. This is a very special place that will help those with dementia live well and age with joy and dignity.

Jennifer McCue
President and CEO, Bethany Care Society

Town of Taber
Aerated Lagoon

When the Town needed upgrades to their Aerated Lagoons, for industrial wastewater treatment, the direction from Council was lower costs. Public Works staff looked at many different options to ensure lowered maintenance, and operating costs could be attained. One of the significant electrical inefficiencies was the blowers used for treatment. ABS Sulzer provided Turbo-compressor Blower with magnet technology within their blowers which substantial lowered electricity consumption. The energy efficiencies achieved are paying off by lower electrical usage which has saved the Town 45% on their electrical costs which is used to pay the debenture from Alberta Capital Finance Authority.

John Orwa
Director of Finance, Town of Taber

Financial Statements

December 31, 2018

Financial Reporting Responsibility of Management

Management of the Alberta Capital Finance Authority prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian public sector accounting standards and the requirements of the *Alberta Capital Finance Authority Act*. Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency.

The Board of Directors, acting through the Audit Committee, oversees management's responsibilities for financial reporting, and internal control systems over financial reporting. The Audit Committee reviews the financial statements and other financial information, as well as any issues related to them, with both management and the external auditors before recommending the financial statements for approval to the Board.

The Auditor General of Alberta is designated as the external auditor in the *Alberta Capital Finance Authority Act*. The Auditor General of Alberta has full access to the Audit Committee, with and without the presence of management. The Independent Auditor's Report outlines the scope of the audit and provides the audit opinion on the fairness of presentation of the information in the financial statements.

Edmonton, Alberta
March 19, 2019

[Original signed by Troy Holinski]

Troy Holinski
President

[Original signed by Bernadiene Hsie]

Bernadiene Hsie
Vice President, Senior Financial Officer

Independent Auditor's Report

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]

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.

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

(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.

(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.

(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.

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).

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).

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:

Swapped	2018		2017	
	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).

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.

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.

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).

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.

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**

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.

(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.

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.

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).

(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.

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.

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.

(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.

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**

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.

University of Alberta

East Campus Village (Nîpisîy House)

Nîpisîy House, opened Fall 2018, was designed to support long-term sustainability and a healthy resident community. Located on the university campus in East Campus Village, Nîpisîy House offers spacious, apartment-style units with either four or six personal bedrooms, and around-the-clock onsite support to its residents.

This award-winning sustainable residence offers features like a fitness room, outdoor patio with fireplace, indoor bike storage facility, and meeting/study rooms—all lending to a balance between academic life, recreation and community.

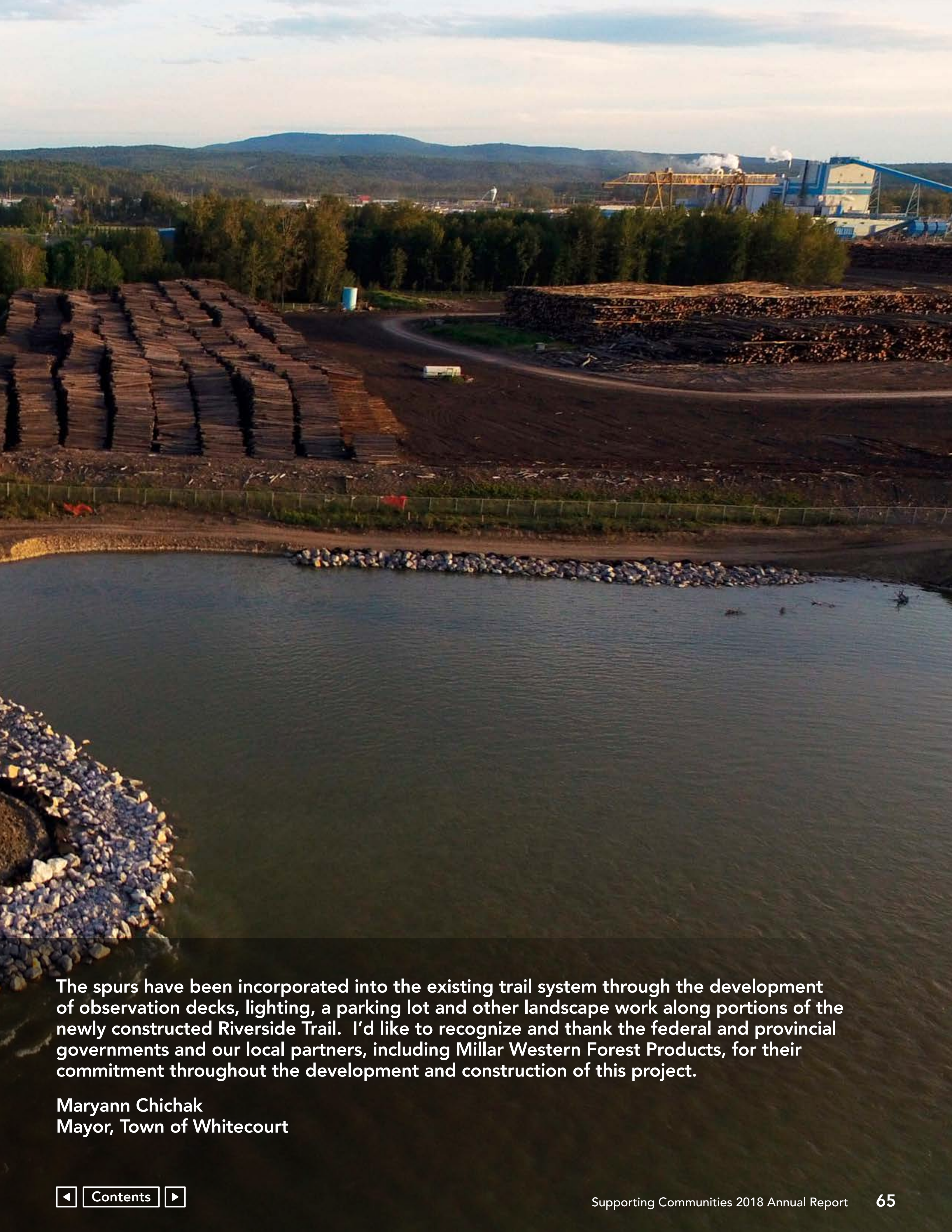
The intent is for Nîpisîy House to be a residence option for students who meet friends during their first year living on campus, and then want to move in together in their upper years of their undergraduate degree. In support of this, the design of Nîpisîy House encourages a close-knit community, set up so residents have ample social spaces, while enjoying the many innovative additions, including a vibrant aesthetic with an abundance of natural lighting.

Philip Poon
Associate Director, University of Alberta

Town of Whitecourt

Athabasca River Erosion Control Project

The enhancements made through the completion of Whitecourt's River Erosion Control Project will help to safeguard our community, and minimize risk to public and private property. This $6.3 million endeavor began in 2013 and involved the construction of a series of erosion control and habitat enhancement features to control and reduce erosion on the south banks of the Athabasca River. Not only did we address potential hazards in this area of our community, but the changes made resulted in new areas of interest for residents and visitors to the community.



The spurs have been incorporated into the existing trail system through the development of observation decks, lighting, a parking lot and other landscape work along portions of the newly constructed Riverside Trail. I'd like to recognize and thank the federal and provincial governments and our local partners, including Millar Western Forest Products, for their commitment throughout the development and construction of this project.

Maryann Chichak
Mayor, Town of Whitecourt

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